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THE FEDERAL RESERVE SYSTEM—ITS PURPOSE AND WORK

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The Integrity of the Federal Reserve System

By A. D. WELTON AND C. H. CRENNAN

Editors-in-Charge

THE Federal Reserve System has to do only with commercial banking.¹ Commercial banking has only to do with getting goods from producer to consumer. It operates on the assumption, ordinarily valid, that the sale of goods to the consumer produces funds to discharge whatever obligation has been created.

Investment banking, on the other hand, operates on the assumption that the capital loaned will be repaid out of the earnings its use permits in a specified number of years.

The essence of commercial banking is liquidity of the credit on which it functions. Its credit instruments must be of short maturity. The banks which invest in them undertake to pay on demand and they must have a constant inflow of funds or a means of quickly realizing on their credit instruments. It is necessary, therefore, that the goods against which such credit is granted should be always in process of sale.

Primarily and fundamentally the Reserve System was designed to provide for the credit instruments of commerce an instant sale. It was an attempt to organize not a new lot of banks, but a new banking machine supported by the resources of all its member banks.²

The Reserve System is then an organization of banks. The Reserve Banks draw their capital from banks.

¹ Permission to national banks to receive savings deposits and to exercise trust company powers does not affect the commercial nature of the Reserve System.

² Cf. Article by Professor Kemmerer in this volume.

Banks give them all the business they have, except the government, which is their only other customer. The country has then a banking system composed of banks of various kinds, some chartered by the nation and some by the states, brought into a coöperating organization with the Federal Reserve Banks as the operating mechanism.

Over this operating mechanism of the coöperating organization of banks, the government exercises a general supervision. There are many people who thought the supervising authority should be different, but it isn't and it doesn't matter so long as it is competent and impartial.

The purpose of the Federal Reserve System was to provide for business just what has been provided. There was no purpose and no intention to establish government banks, and none was established. There was no purpose to help or favor operating banks because they needed neither help nor favors. There was a purpose and intention to put the operating, commercial banks in a better position to discharge their duties to business so that business might go on under any and all circumstances, if this could be achieved through an economic use of credit and competent credit machinery.

In relation to business, therefore, the Federal Reserve System is more than a banking system. It is a code for business behavior. It is more than a machine for expanding and contracting credit and currency. It is a means for the orderly and systematic functioning of business credit and,

through reapportionment of this credit, for the stabilization of business.

No comprehensive grasp of the System can be had if, among its attributes, is included that of a remedy for all business and financial ills. It is not. It can never save the day for the insolvent. It is man-made and man-operated. It has and must have limitations. It must not be concluded because it financed the War, that it can go on indefinitely producing rabbits of credit and currency out of an empty hat. It didn't do that even in war. It did give life and credit form to latent and dormant resources. It did make the unliquid at least temporarily liquid. But war demands such performances.

It might have been better if the Reserve System had been called on to do less, and more had been done through other means, the Treasury, for instance. It would have been as well for the country and better for the System. Had this course been followed the Reserve Banks would have avoided much harsh criticism for displaying their limitations, once war pressure was removed. Many suggestions for changing the System would never have been made. It would not have been expected to bring to realization so many fatuous dreams.

As an operating banking mechanism the System need not, however, be taken for what it is. Changes in the machinery may be made if the fundamental structure is not impaired. Any banking system is a thing of growth. If, in its final form, it shows that wisdom has been gained from experience and skill from practice, it begins to approximate general needs. The Reserve System is an evolution out of more than a century of hard and bitter, experience made harder and more bitter by experiments. Its mechanism is, therefore, of moment only as it per-

mits the application of principles of demonstrated soundness. Its fundamentals are vital, not only because they attest that old fallacies have been dismissed, but also because they have been proved under the test of practice.

Probably, in any organization applying rules of conduct, there is a degree of fluidity. Some measure of change is always possible even when not always desirable. But change for the sake of change is not progress or improvement. On the other hand, there is advantage in holding to fixed practice. It is not difficult to test the quality of any amendment proposed to the Federal Reserve Act. It is necessary only to get the fundamental purposes in mind. Anything out of accord with them may instantly be dismissed.

But a great banking system cannot grow and develop out of itself. Dealing with such an intangible as credit and so nebulous a quality as confidence, the attitude of the public must be reckoned with. So susceptible are banks generally to public opinion that the banker subconsciously, almost, considers that as a factor to be used in all his calculations. In any event the public is a factor in the future development of the Reserve System, as Paul M. Warburg points out elsewhere in this volume. If the public is dismissed because even a meager popular understanding of the intricacies of banking is beyond hope, the business man, from whom more may be expected, stands forth as a grim spectre.

The public, most assuredly, feels and does not analyze. The business man may be controlled by emotion rather than reason. The more certain the operations of the Reserve Banks, therefore, the better they will come to be understood. Eventually, although it may be only a hope, the public will

come to understand up to the point of having confidence.

Thus the public is an important factor in the development of the Federal Reserve System. There must be a growth without the banks as well as within them. The public mind must become attuned to them.

For the people the Reserve System is a precious thing. If it is to fulfill its work and its mission, they must view it with confidence. Its integrity is to be guarded with as much jealousy as the Constitution itself. The jealousy must be inculcated into the popular mind. The attainment of such a state is taken to be desirable. If it is, the prospect of its realization will be in constant jeopardy unless members of Congress can be induced to abandon the idea that the Reserve Act is subject to tinkering at the behest of any amateur banker.

KNOWLEDGE OF BANKING HISTORY HELPS TO PUBLIC UNDERSTANDING

Under the interpretation of the Federal Reserve System given above, its growth, improvement and development to the maximum of satisfaction and efficiency can be attained only if its fundamental purposes are understood. The forces without the System must contribute a share in this growth and development. These outside forces are the business men and the public generally.

There can be no adequate understanding or appreciation of the System unless there is a general familiarity with what preceded it. To this end the first section of this volume is given over to an historical review. The first article sketches the history of banking from 1791, when the First Bank of the United States was organized, down through the panic of 1907.³

Even cursory reading of these events

³ By B. H. Beckhart.

will indicate the influence that old experiments and controversies exerted on the makers of the Reserve Act and the form and content of the law. In the struggle over note issues and redemption of bank notes will be found the causes for the demand that Federal Reserve notes be made "obligations of the United States." The workings of the national bank system will explain the development of reserve banking and the need for elasticity of both credit and currency, and so on.

In his article on "The Studies of the National Monetary Commission," Professor Weston illuminates the defects of the old banking system and shows how they were studied in relation to other systems and the probable needs of modern business for adequate banking service.

These needs found expression in the organization of the National Citizens' League for the Promotion of a Sound Banking System. The story of the organization of that movement is told by Mr. Harry A. Wheeler, who participated in it and who was also one of the organizers and the first President of the Chamber of Commerce of the United States.

Through the workings of the National Citizens' League, later supplemented by work of the Chamber of Commerce, the business men and the business organizations of the country were bound together. A community of thought on banking methods and services was thus brought about and translated into definite purpose.

To get this result—a first step toward legislation—demanded an elaborate educational campaign. Success in this venture was made more difficult because of the many schemes for monetary and banking reform conceived and promoted by modern John Laws. These enthusiasts, often seeing

in banking the means of attaining universal happiness, found no other weapon than legislative compulsion or government operation of banks. Dismissing the exploded theories, it need only be said that the guaranty of bank deposits was the measure of reform being pressed with vigor at that time. It had many advocates in Congress. However, the educational campaign was persistently prosecuted and was successful to the extent necessary in bringing attention to sound economics in banking reform as against the pursuit of emotional rainbows.

In his article on "The Federal Reserve Act in Congress," Dr H. Parker Willis gives an intimate recital of facts, many of which have not previously been published. As expert for the House Committee on Banking and Currency, Dr. Willis was familiar with every step in the development of the bill before it was in the Committee for discussion and subsequently. The political factor is here disclosed as it came forward to influence what was an economic product. The degree of interest of the Administration in the measure, the pressure placed on Congress and the suggestions from the Treasury and other departments are made clear.

In this phase of the development, distinction must be made between the administrative and the economic provisions. Control of the System was always a subject of contention. The decentralizing of credit and curbing of the supposed power of Wall Street and the "Money Trust," were always matters of political concern. The tendency toward government control of the operating banks themselves had to be guarded against. Over the economic provisions, there was less trouble. There was no disagreement of moment in this respect, but provisions strictly economic were often

under pressure because of their relation to control in execution. Thus elasticity of note issue was confused with distribution of credit and would have been sacrificed or impaired if help for the farmer could have been secured thereby. One illustration of the confusion of economics and politics will suffice.

In an economic sense, rediscounting for profit was at that time unthinkable. The maturity of paper offered for rediscount at the proposed banks was of incidental importance. Commercial banks could not consider paper of anything but short maturity and it was equally clear that paper for rediscount would not be offered to the Reserve Bank by the discounting bank on the day of discount. But dozens of congressmen could not or would not understand that the farmer could have no direct dealing with the Reserve Bank. Hours of discussion in the Senate were given over to the maturity of agricultural paper. Senators who saw in the Reserve Act only a new way of settling the farmer's eternal credit problem, would have willingly destroyed the commercial character of the Reserve Banks on the chance of settling that question. The time agricultural paper for rediscount may run was increased to ninety days. This maturity would have been of no importance if the rediscount rates had ever been scientifically adjusted and is of little importance anyway. In August, 1921, the average maturity of rediscounted paper was 15.76 days. In September it was 17.22 days. In the Minneapolis Bank it was 42.06 days and in Boston 7.74 days. If maturities had not been mentioned in the Act, the result would probably have been the same.

The House bill as recommended by Chairman Glass' Committee was the real bill, as Dr. Willis points out.

Senator Owen had a different bill which he was induced, eventually, to abandon. There was also a bill fathered by the Treasury providing for a central government bank with the Treasury's gold as the capital. The fact that the gold belonged to the holders of the certificates issued against it, was thought to be insignificant. The advocates of this plan floundered about in it for some time until the President himself summarily suppressed it.

Dr. Willis shows clearly that the Glass bill was the Administration's bill. After all other proposals had been discussed, and mechanical changes were made—notably that providing for retirement of the bond-secured currency—the Act as passed was substantially the bill as it came from the House Committee.

The true purposes of the Federal Reserve Act will be found in the discussions and reports of the Banking and Currency Committee of the House, of which Carter Glass was chairman.

The beginning of the European War brought an almost instant business dislocation. Fear of panic was allayed by the summary closing of the stock exchanges. A currency famine was supposed to be imminent. The members of the Federal Reserve Board had been appointed about this time—August 9, 1914—but the time for opening the new Reserve Banks could not even be predicted.

In September the dormant National Currency Associations were awakened. These had been formed in many districts under the provisions of the Aldrich-Vreeland Act, passed after the panic of 1907. Emergency currency was issued to these Associations and met whatever stress there was, as told in Mr. Dodge's article.⁴

⁴ "The Aldrich-Vreeland Emergency Currency."

Aside from the useful service of providing currency and thereby sustaining confidence, the operation of this law was effective to prove its incapacity to meet anything more than a passing strain. There were many men—bankers included—who thought that the demand for banking reform would be completely met by this law or any law which would permit the turning of bank assets into currency. It was a bit of good fortune that there was a demonstration to show that banking efficiency was a reserve and not a currency problem. It eliminated forever from consideration a half-hearted remedy.

EARLY PROBLEMS AND OPERATIONS OF THE FEDERAL RESERVE BOARD AND BANKS

The Federal Reserve Board and the Banks were organized without much difficulty. The Organization Committee toured the country to gather information and hear the arguments of the various civic and banking committees selected to advance the claims of the many cities which thought themselves entitled to selection as the homes of the Reserve Banks. There were many contenders for these honors and there was some bitterness. Fixing the boundary lines of the districts also caused contention. Political "pull" was exerted to influence the committee from without and political prejudice was working within. But these matters were of minor importance compared to the Organization Committee's interpretation of the provision as to the number of Banks. They decided that twelve should be immediately established, and not eight, to be increased to twelve later if experience showed twelve to be necessary.

Undoubtedly the Committee felt the pressure keenly. Southern cities were very ambitious and very influential. But, so far as politics was concerned,

its full force was not manifested until the matter of organizing the Reserve districts came before the Reserve Board for review in 1915.

The Federal Reserve Act (Section 2) says, "The determination of said organization committee shall not be subject to review except by the Federal Reserve Board when organized" and "the districts thus created may be adjusted and new districts may from time to time be created by the Federal Reserve Board, not to exceed twelve in all."

The Board seemed to think that provision mandatory. It was, therefore, in the performance of what they considered a duty that they turned to a study of district boundaries and the location of Reserve Banks. In several instances changes in boundaries were made, but when a discussion of the possible strengthening of the System by combining some of the districts (without closing any offices already established) was begun, political power began immediately to work.

The then Governor of the Board and the two ex-officio members combined to prevent any change of the kind under discussion. The ex-officio members—the Secretary of the Treasury and Comptroller of the Currency whose action as members of the Organization Committee was to be reviewed—and the Governor were a minority of the Reserve Board. But, over the signature of the Governor and without the authority or knowledge of the majority of the Board, they asked the President to transmit to the Attorney-General a request for an opinion defining the Reserve Board's powers of review.

The opinion was turned out over Saturday and Sunday, which may be considered unusual dispatch. When the Board met again it was faced with the Administrations' interpretation of the law and the interpretation was that

the Board had no power to review the determination of the Organization Committee in a manner that might affect the existence of any of the twelve Reserve Banks already established.

The point to be made is that the integrity of the Reserve System is of indifferent consequence in the face of political exigency. Perhaps just such a thing will not happen again but this is the second instance in which appeal was made to the Attorney-General to give legal support to a plan politically desired.

The fear of future political assaults on the integrity of the Reserve System is so well founded in experience that Mr. Warburg is wholly justified in his conclusion that the people must develop a jealous regard for their banking machinery if they wish it to endure. Mr. Warburg, in his article, is apparently less concerned with the past than with the future. Recent experiences indicate the correctness of his views and the basis for his fear of political encroachment. He worked so faithfully and effectively to gain and hold for the Reserve Banks what they have that anything he says has particular and peculiar significance.

Once the Reserve Board was in action, there was the usual clamor for jobs from eager politicians but it was mostly clamor. The positions to be filled were hedged about by qualifications that could not be met by those without banking experience. The position of Reserve agent attracted the avid attention of the politically faithful. The duties of this position were not clearly defined. At first sight it seemed to offer attractions of ease and afford a quiet resting place for an agreeable something classed in political slang as a "lame-duck." There were, of course, hundreds of applications for these places and every applicant was supported by heavy political indorsements.

However, the Reserve Board itself was wisely chosen. Efforts to diversify its membership both in equipment and representative character were successful. The Board, charged with the duty of organizing a new banking system at the time the world was beginning the greatest of wars, did not view the task lightly or politically. Bankers were drafted into the service of the Reserve Banks and accepted, often at large sacrifice. Bankers and business men chosen to the directorates of the Reserve Banks were as much in earnest as the Reserve Board. The political pressure was strong enough to bring a lapse here and there, but the general character and business complexion of the official staffs stood up under close inspection. This early proceeding is to be judged only in the light of results obtained and not by the efforts that were made to impose upon Board or Banks the wishes of those who were politically moved. It is a fair inference that, so far as jobs were concerned, political officialdom passed recommendations along in the serene confidence that the banking minds would accept the responsibility of the refusal to concur.

In any event the Banks came into existence as banks and were opened on November 16, 1914. Having buildings, equipment, officers and staffs, they were naturally curious as to what they might do. Could they advertise and go out after business? No provision had been made for such a course. They would get business when their member banks were hard pressed for funds. Humiliation attached to rediscounting. It was regarded as a sign of weakness. Moreover, while the Reserve Banks were open for business, reserve funds were to be turned over to them in installments. The banking system was otherwise running along as before.

There was, however, much to do.

In nearly every district leading banks rediscounted paper for the sake of example.⁵ The Reserve Board had to study the law, which settled all difficult problems by saying "under such regulations as the Board may prescribe." It must also be remembered that Aldrich-Vreeland emergency currency was in circulation and was to be retired or supplanted by Federal Reserve notes.

Rules were to be made, precedents set and the gathering of traditions begun. Eligible paper had to be defined; at least, a beginning had to be made.⁶ Not only banking customs but business habits would have to be remolded and remodelled, if the Reserve Banks were to have anything on which to function. Acceptances were authorized by the Act. They were new to the banking world. The lessons of war were beginning to say that gold would have to be gathered and impounded.⁷ The state chartered banks were hostile or, at best, only neutral. It grew rapidly plainer that they would have to be wooed and won. The law made it mandatory that the clearing and collection of checks and drafts be undertaken. A first step in this direction threw the country banks that were members of the System into spasms of anger and fear. It made the state banks glad that they were beyond such meddling.

The Gold Settlement Fund came as an ingenious means to economy and convenience for member banks. It was a first notable step in what the Reserve Banks could do—something that would be helpful, speedy and cheap. The plan was worked out by the Reserve Board

⁵ "Early Functioning of the Federal Reserve System."

⁶ "Eligibility for Discount" by Charles L. Powell.

⁷ See "Preparation for War and the Liberty Loans" by J. H. Case.

in conjunction with experts called from member banks. It was simple and easy and established itself so quickly in favor that it was almost as quickly forgotten as a service. It has always worked perfectly and stands now as a real achievement.⁸ It is a service no less to business than to banks.

The story of the winning of the state banks and of par collections is told in the paper by Mr. Pierre Jay, Chairman of the Board of the Federal Reserve Bank of New York. Mr. Jay was called to that position from the presidency of a state bank. It is needless to say that his sympathetic understanding of state bank problems, his patience and persistence found opportunity for display in dealing with those institutions. But the national banks within the System were more rebellious than the state banks without it. They would not be mollified and they were impervious to argument. They nearly disrupted the American Bankers Association. They forced Congress to consider amendment of the Act and missed winning completely by a narrow margin. They went to law about it. It is possible still to make exchange charges and they are made, but the "par collection" competition is too strong. In the face of all the obstacles the Reserve Banks are now the great instruments for check collections and they will have competition in this field only from banks of great reach, capable of maintaining the necessary connections and facilities.

However, the War, not the wooing, brought the state banks into the System—not all of them, of course, but a number in point of resources quite great enough to give the Reserve System the necessary universality—if there is any such thing as a degree.

⁸ "The Evolution of the Gold Settlement Fund" by George J. Seay.

The development of the relations of Reserve Banks to their members and with one another immediately became a serious problem once the Reserve Banks were in operation. How this was done and what was and is being done, is told by Mr. Gidney. The Reserve Banks can never supplant "correspondent" banks. There are too many services the latter render, too many personal and long-standing connections, but the Reserve Banks have made great progress and have brought their depositors to a realization that they are customers and will be treated as such. The development of close relationships among the Reserve Banks and their officials has also been as important as it is interesting. Unity demanded it, but systematic effort was essential to its achievement.

There will always be non-member banks because banking is often specialized and men have notions of independence. The mutual savings banks of the East are not eligible to membership. They have no capital stock. The laws have been changed in one or two states to permit them to invest a part of their funds in "commercial paper" and acceptances, but their investments are not supposed to be liquid, and they are far removed from commercial banking.

Probably there will always be private bankers with freedom to operate within that borderland where investment and commercial banking meet and divide, or on both sides of it. But the Reserve System, as now formed of Reserve Banks, national banks, state banks and foreign trade banks, is sufficiently inclusive and strong to permit the statement that it is as nearly universal as necessary. There is nothing on the horizon, or nearer, to indicate that it will diminish instead of grow.

Amendments to the Reserve Act have been fairly numerous, but generally they have been made to meet conditions that could not be foreseen or to make operating conditions easier or simpler. It is good fortune as well as good judgment that there has yet been no success in perverting the provisions of the Act. Congress has so far yielded to the guidance of the Reserve Board and, when there was threat of unsound doctrine, Carter Glass, as representative and senator, has been found on guard. The first thrust at the integrity of the System by the War Finance Corporation has been parried. Even the admission that that Corporation is now doing commendable work and meeting an urgent need, does not justify dismissal of the hope that its life and the emergency which revived it, will both end as scheduled on July 1, 1922.

Amendments to the Act are discussed in Mr. Walter S. Logan's paper where their bearing and trend may be learned. In this connection it is not amiss to say that bankers have contributed loyally to the effectiveness of the Reserve Banks' operations. If they fought lustily, through one or two groups, against par collections, they coöperated zealously by surrendering their gold to the Reserve Banks. Without the War the impounding of gold would have been exceedingly difficult; as it was, it required effort. But good teaching and good leadership carried through, in the closing months of 1917, a plan whose success stood as a milestone in the progress of the Reserve System.

Branches of the Federal Reserve Banks were established and opened in the interest of service to business. The jealousies engendered by the selection of Reserve Bank cities and the making of reserve districts were wiped out in this way, but the branch

banks have proved the necessity for their existence. Governor Fancher, of the Cleveland Reserve Bank tells the story.⁹ There are, however, variations in the operation of branches. In the far West the geographical extent of the San Francisco district demanded a larger independence in management for the branches than in the East, but telegraphic communication is always close.

The assumption of the functions of the Independent Treasury—see Professor Wildman's article—came belatedly. It was probably as well that it was deferred by politics and war. When it did come, the banks were experienced and ready. So far as the public was aware the subtreasuries slipped their moorings and drifted into the sea of oblivion with no one's knowing or caring.

EXPANSION, CONTRACTION AND THE DISCOUNT RATE—VITAL PROBLEMS

It was thought advisable by the editors of this volume to have as wide a discussion as possible of "Expansion and Contraction." Involved with this question is the influence of the rediscount rate on business activity and, therefore, the relation of the rediscount rate to business and to the expansion and contraction of money and credit.

The Reserve Board is charged with many duties. The Reserve Banks function in many ways. But no question goes more to the vitals of the entire scheme than the adjustment of the discount rate of the Reserve Banks. Whatever else they may do and however successful they may be in the discharge of collateral and subsidiary duties, around the discount rate and its making cluster the factors that bear

⁹ "The Establishment and Scope of Branches of Federal Reserve Banks."

directly on the success or failure of the Reserve Banks as aids to commercial business or to the member banks which act in response to business and react to its advantage.

The relation of the Reserve Banks' discount rate to and influence on business has by no means been determined. The factors to be considered in determining the rate are pretty well settled, but their relation to one another and the relative importance of each is still an open question. In seven years of operation the determining of the discount rate has been influenced by extraneous or distracting conditions. At first when the Banks were new, it was of no importance. When war pressed, other factors received scant attention. After the Armistice the belief that the unexampled prosperity would endure, supported the Treasury's needs for more financing. When, finally, something had to be done to avert a crash, it was found that no genuine experience in adjusting the discount rate to influence business had been had. The first increase of the rate to "slow up" business came as an arbitrary decree based on a conception drawn from British experience. That was in January, 1920. Business did not slow up. It went on, undoubtedly despite the higher rate, despite the warning, but, because of what? Possibly because of its own momentum. Expansion increased. It was many gloomy months after the rate was first increased before the peak of either credit or currency expansion was reached. In the meantime business generally declined to believe that the end of war prosperity had come or that the revival and continuation of it was not around the corner. The Reserve Board and the rates of the Reserve Banks were mentioned only to be damned. All kinds of allegations,

charges, proposals and remedies were made. In the end the rate was popularly charged with undoing business—for lack of a better reason.

All this was a new experience with the discount rate. It was a valuable experience because it was a first lesson in the time relationship between business activity and the Reserve Bank's discount rate which, to whatever extent it affects business activity, can do it only through the influence it exerts on the rates charged by member banks.

In the articles on these questions, a wide range of experience, supplemented by opinion and study, was sought. Bankers, Reserve Bank officials, merchants, economists were all invited to express themselves. Governor Harding, of the Reserve Board, has stated the problem as it is before the Board. Mr. John H. Rich, Chairman of the Board of the Minneapolis Reserve Bank, has furthered the discussion with views and experiences in that extensive and interesting Reserve district. Dr. A. C. Miller of the Reserve Board, has brought to bear on it a mind singularly free from prejudice and admirably equipped to ferret out and interpret facts. Mr. John V. Farwell, from the merchant's interested and detached position, gives helpful suggestions and clear exposition. Mr. J. B. Forgan, dean of bankers, and tried in experience by long service on the Federal Advisory Council, and Mr. George M. Reynolds, from a terraced height of banking leadership fairly won, make contributions which are supplemented by those of Professor E. M. Patterson of the University of Pennsylvania and Dean Chester A. Phillips, of the University of Iowa, theorists in the field of economics but with practical bents and adept in the use of scientific method.

Needless to say, these men are not entirely in agreement. But close reading of their contributions will disclose

that they are far from hopelessly apart. Any divergence of statement is not over what the discount policy has been, but rather in emphasis as to what it should be in the future.

The problem of the time relationship between the rediscount rate and business activity seems vital in the discussion. Of the efficacy of the rediscount rate to influence business there is little room for question. Recent experience, however, indicates a considerable lapse between the time of fixing the rate and the time when business feels and responds to it. On January 21, 1920, the first increase in discount rate to six per cent was made. This rate was maintained until the following June when the rate for Chicago and New York was increased to seven per cent. This rate was maintained for a year. In June, 1921, the lowering began.

The point made by Mr. Reynolds is that business is not immediately affected by the rates charged by commercial banks. The rediscount rate can affect business activity only through its effect on the rates of commercial banks. But banking, as a result rather than a cause of business activity, can react only after business has made commitments which it is bound to carry through if it can. If, under the present relationship between the rediscount rate and business activity, the rate is to be adjusted effectively, adjustment must be made in anticipation of a business activity which may need restraint or of an inactivity which may need stimulation. Such an adjustment might be precarious and it would likely be uncertain. It is venturesome to say that the rates charged for loans by member banks would be a better guide in seeking a basis for the rediscount rate, for those rates have variations, as do the rates charged for standard "commercial paper."

The condition outlined shows the strength of the position of those who say the rediscount rate should always be higher than, say, the rate for standard commercial paper charged by member banks. However, there are strong arguments why the rediscount rate should sometimes be lower. At present the lower rate is giving many hard pressed banks in the farming sections a needed breathing spell. A lower rate's influence in stimulating business may also be problematical unless the member banks adjust their rates to it as quickly as possible and with considerable speed in any event.

It is not that these statements create a dilemma but they seem to justify no other conclusion than that further experience in influencing the rates of member banks, if not further experiment, is necessary before it may be said that wisdom is justified of her children.

IMPORTANCE OF THE "OPEN MARKET"

If operation of the Federal Reserve Banks, under stable conditions of business, is to be seasonal and cyclical, as many of the contributors to this volume seem to believe, the further development of open-market operations will be in order. It so happens that the Reserve Banks, early in their careers, found war a wonderful accelerator. War made them busy and prosperous. Henceforth they will operate under changed conditions. Not that there will not be continuous business for the Reserve Banks, but they will not be carrying peak loads twelve months in the year. Their operations in the open market will be more important under the new conditions than in the past. In this field they may find it possible to exert an influence which will make for the stabilization of money rates.

Mr. Agger tells of the development and position of the open market. From what has been achieved we may get an idea that here is a field for cultivation, with success reacting to demonstrate another and larger service the Reserve Banks may render business. The law made provision for such conduct by the Reserve Banks and its importance must be kept in mind.

MISCONCEPTIONS OF THE SYSTEM

Under the stress of financial difficulties incident to war and its aftermath the Reserve Banks came in for a full measure of criticism. It was to be expected, and it is not surprising, that a portion of the criticism was hostile as well as adverse. Professor Patterson, in his discussion of contraction and expansion, gives a very clear elucidation of Reserve Bank operations in their relation to government financing, foreign business and conditions and commercial banking. In these operations will be found such basis as exists for real criticism. The article might well be read with that also in mind.

In his review of the "Popular and Unpopular Activities of the Federal Reserve Board and the Federal Reserve Banks," Dr. Scott goes more particularly into these criticisms, the reasons for them and the shallowness of most of them, while Governor McDougal of the Reserve Bank of Chicago, gives a striking illustration of the lean foundation on which rest the allegations of discrimination against the agricultural districts.

It is not enough to state what the Federal Reserve System is designed to do, if the fundamentals of that System are to be understood. Current misconceptions must be cleared away. The prevalence of erroneous ideas compels such procedure.

A wide-spread notion prevails, even

among bankers, that the Federal Reserve Banks are government banks. They are bankers' banks. This fact is written into the Federal Reserve Act.¹⁰

It is implied in the provisions of that instrument.¹¹ It is not only recognized by economists,¹² but also indorsed by operating officers of Reserve Banks.¹³ No Federal Reserve Bank stock is held by the Federal government. The government possesses its regulatory power because the System is freighted with a public interest. The government has an interest in Reserve Bank profits only through a franchise tax. The Federal Reserve Banks are subject to taxation like other private corporations. To be sure, a minority of the directors of Reserve Banks are appointed by the Federal Reserve Board and members of that Board are government appointees exercising supervisory powers in the public interest. Moreover, Federal Reserve Banks do act as fiscal agents, and in other ways, for the government's convenience. Nevertheless, Federal Reserve Banks are not government banks. They are bankers' banks designed to aid business by facilitating commercial transactions. The fact that the Reserve Banks are not government banks destroys the groundwork for assumptions: (1) That the System can produce general "prosperity," and (2) that it should be dominated by government.

Under the stimulation of war the facilities of the Reserve Act for expansion became an engine of inflation. They cannot be made an engine of "pros-

¹⁰ See the Act and Professor Kemmerer's paper in this volume.

¹¹ Cf. "The Reserve Act in its Implicit Meaning."

¹² See Professor Phillips' article, for example.

¹³ Cf. "Relations of Reserve Banks to Member Banks and Inter-Relations of Federal Reserve Banks."

perity." Neither deft nor awkward political manipulation can turn the Reserve System from its strictly economic purpose. It was not designed to salvage insolvents. It cannot create credit out of nothing. While commercial banks can control the flow of commercial credit and thus affect the currents of the productive processes, business creates that credit which banks, even the Reserve Banks, apportion. Business impels; banking controls the drives,—after a time. If there *must* be a causal relationship between business and banking, business causes banking. There is actually a functional relationship. Business gives rise to banking and banking reacts on business. Neither commercial banks nor Reserve Banks can create credit and thus create "prosperity."

One of the facts that doubtless has obscured thinking about the fundamental play of commercial banking is this one, that the Reserve Banks have handled government issues, rediscounted paper secured by government obligations and otherwise performed war functions for the Federal government. They have been functioning, in no small measure, on *other* than commercial credits. This was not their original purpose. Government promises to pay should not be the chief grist taken to the Reserve Bank mill. But as a result of war operations, the assumption that Reserve Banks can "manufacture" credit out of nothing seems to find justification with those who have not seen the underlying sources of the promises to pay on which the Reserve Banks have been functioning. Business, not banking, creates what is called "prosperity."

An instance of government domination of the Federal Reserve System can be found in the control of the rediscount rates by the rate on govern-

ment bonds.¹⁴ This control was no doubt bred of war's necessities. The War is over. But no end has come to political pressure on the Reserve System. That pressure seems now to come through Congress, or a section thereof, rather than through the Administration. It is suggestive, if not legally accurate, to say that the Federal Reserve Board can exercise those powers expressly granted or necessarily and fairly resulting therefrom, while the Reserve Banks hold residual powers. "Less government in business" can find a starting point in the Reserve System. Government supervision is very different from political manipulation. These bankers' banks should be unhampered by politics.

A current misconception that is giving way is the notion of dead-level uniformity of policy and practice among the Reserve Banks. The Federal Reserve System meets the necessities of American geography and history in providing regional banks with a centralized supervision. This fact is attested by many of the contributors to this volume.¹⁵ Presumably each Reserve Bank will adapt its policy and practice to the hard and particular facts of the business situation in its district.¹⁶ Where differences in procedure are necessary, they must and will be allowed by the Federal Reserve Board, just as differentials in discount rates are "permitted" between districts that are dissimilar. The Reserve Board will play its part of leadership by functioning on *common* matters of policy and practice without constraining the directors of the various banks in matters of

¹⁴ See Governor Harding's statement in the article, "Rediscount Rates, Bank Rates and Business Activity."

¹⁵ See, for instance, the articles by B. H. Beckhart and John H. Rich.

¹⁶ See the paper by H. Parker Willis in this volume.

justifiable difference. This will the System best perform its service in facilitating commerce. Arbitrary control, political interference and dead-level uniformity will destroy, not maintain, the integrity of the Federal Reserve System.

THE AVOIDANCE OF INVESTMENT OPERATIONS BY RESERVE BANKS

Investment banking should have no place in the operations of Federal Reserve Banks. Their reason for being is to aid commercial banking. Investment operations can be avoided by confining the paper eligible for discount at the Reserve Banks to commercial paper.¹⁷

Should the Federal Reserve Banks perform such agricultural credit functions as are now being developed by the War Finance Corporation and should they be "adapted" to such functions? The answer to this question will not only emphasize the distinction between commercial and investment banking—in what may be urged as a border-line case—but will also illustrate the need of confining eligible paper to that which evidences a movement of goods from producer to consumer and is self-liquidating.

The original purpose of the War Finance Corporation is of no present moment. The essential purpose of Section 24 of the War Finance Corporation Act, under which the Corporation is now operating, is to give bankers and farmers time in which to pay their obligations. Banks in various agricultural communities have made loans for "agricultural purposes" which cannot be repaid at maturity out of the

proceeds of this year's crop. Some of these banks are themselves having difficulty in meeting their bills payable. This situation is too well known to need elaboration. The War Finance Corporation Act expressly permits banks with "frozen" agricultural credits to apply for advances from the Corporation for six months or a year, with a renewal privilege which may give the obligation a total life of three years. By getting time in which to retire its bills payable, the bank is in a position to give farmer borrowers time in which to make a new crop, or two if necessary, and thus clean up their obligations. The Bank's obligation must be secured by collateral which will insure ultimate payment, but time is given for payment. In short, the Corporation is functioning in the way of carrying the burden of agricultural loans that are slow but should ultimately be paid.

To the extent that the Corporation gets funds into the agricultural sections where frozen agricultural credits still prevail, the operations of the Corporation will no doubt be helpful to banks in those districts and indirectly to the farmer borrowers and the country in general. Whether Section 24 of the War Finance Corporation Act is a sound politico-economic measure need not now be debated. It is a fact. Bankers and economists have few illusions as to the probable extent or nature of its operations, but about one point there can be no doubt, namely, that this giving of time to bankers and indirectly to farmers puts the operations of the Corporation in the class of investment rather than commercial banking. If the Federal Reserve Banks were to carry loans for three years, they would be doing an investment banking business. It is the purpose of the Federal Reserve Act to deal in self-liquidating paper. The Reserve Act might conceivably be amended to

¹⁷ The term *commercial paper*, unless in quotes in this article, means commercial paper as defined in the Federal Reserve Act and rulings of the Federal Reserve Board, and expressly includes agricultural paper. In the case of agricultural paper, however, the maturity of the paper is the essential point in giving it eligibility.

permit the Reserve Banks to perform such long time banking operations as are now entrusted to the War Finance Corporation, but such amendment would be a blow to the integrity of the Federal Reserve System as a commercial banking mechanism.

Should the War Finance Corporation so extend its operations in granting agricultural credits that its capital is exhausted, the Corporation may issue debentures to secure additional funds. The Corporation is empowered by the Act to have advances to banks outstanding at any one time to the amount of a billion dollars. The capital stock of the Corporation, which is owned by the Federal government, is five hundred million dollars. Should the Corporation issue its debentures, these promises to pay must be considered investment paper. They may be used to secure rediscounts with the Federal Reserve Banks. Should they be so used, they will be in the same position as government obligations which are used to secure rediscounts. The propriety of making loans and issuing Federal Reserve notes on the basis of paper "collateraled" by investment securities is a question that may well be raised in considering the integrity of the Reserve System as a commercial banking institution.

Government bonds and debentures of the War Finance Corporation are promises to pay. They are not in themselves evidences of a movement of goods from producer to consumer. They are not self-liquidating as is commercial paper. The legal permission to secure rediscounts with investment paper is a deviation from the original purpose of the Federal Reserve Act. It is true that the Reserve Act makes express provision for rediscounts secured by government obligations.¹⁸ But it is also true that had the framers

of the Federal Reserve Act anticipated the World War, the proviso clause in Section 13 of the Reserve Act, which permits rediscounts to be secured by government obligations, would probably not have been passed.¹⁹ And certainly there was sufficient experience with this proviso clause of Section 13, as to its potency for inflation, to have warned against the amendment of the Reserve Act so as to permit the War Finance Corporation's debentures to be used to secure rediscounts. Section 24 of the War Finance Corporation Act was not approved until August 24, 1921.

While government obligations are so extensively held by individuals and business concerns, it is perhaps impracticable to amend Section 13 of the Federal Reserve Act so as to prevent the use of government obligations to secure rediscounts and the issuance of Federal Reserve notes on the security of those obligations. Until the war bonds of the government find a final resting place with investors—which may mean until refunding plans are put into operation—it would probably be impracticable to prevent a member bank's offering the note of a business man for rediscount which is secured by government bonds. Until that time it may be impossible to have Federal Reserve notes issued only in response to commercial needs, evidenced by the offering of commercial paper for rediscount. In the perfecting of the Reserve Act, Section 13 might well be changed, on the chance of a recurrence of very large government demands. There will be no valid excuse for permitting the rediscounting of notes secured by the debentures of the War Finance Corporation should that Corporation function extensively enough to issue its debentures. Of course, it might be

¹⁹ See paper entitled, "The Reserve Act in its Implicit Meaning."

¹⁸ See Section 13 of the Federal Reserve Act.

difficult to sell such debentures without this feature.

The avoidance of investment operations by Reserve Banks will be difficult so long as Congress, or any group of congressmen, can force amendment of the Federal Reserve Act to take from the Federal Reserve Board its power to define eligible paper under the Act as it now stands. In the spirit of the Act the resources of the Reserve Banks are not to be used for withholding crops from the market to secure higher prices. Commercial paper involves the moving of goods to the market, not withholding therefrom in order to insert a price peg or even to secure "more orderly marketing." Measures to admit irrigation and development bonds as paper for the Reserve Banks to function on might conceivably be passed by Congress. But no matter how great the need of particular agricultural districts, or how desirable various measures of relief, it seems clear that the definition of eligible paper should be restricted to commercial paper unless there is a general and well considered intent to depart from the commercial character of the Federal Reserve System.

There may or may not be need of specialized banking machinery to take care of the long time financial requirements of farmers, due to recurrent crop failures or price slumps, as well as their need for long time funds in bringing cattle to market. But in any event that need would have to be determined on the basis of experience that is more than transitory or that arises from a world-wide emergency, caused by the distortions of war. But the fact that these needs exist is not a sufficient reason to destroy the integrity of the commercial banking system that has been established. They rather point the way to the provision of other facilities, if necessary. To destroy the line

between commercial and long-time banking, that was not easily established, is to permit just such a situation as now obtains in many country banks. They have slow assets with which to meet quick liabilities. It is as impossible to add investment banking to commercial banking and get security as it is to add apples to oranges and get peaches. And it must not be forgot that the slow obligations of farmer borrowers and agricultural banks can be traced in part to land speculation and inflated land values.

RELATION OF THE RESERVE SYSTEM TO INTERNATIONAL FINANCE

The Federal Reserve Act permitted the extension of banking operations into the foreign field. Under this authorization American banks branched out in foreign territory extensively and not always profitably. However costly the experience with foreign banking, it is probably safe to say that banks managed by those who are experienced in foreign trade and foreign banking will in the future find sufficient latitude for profitable operation under the Reserve Act.

The Federal Reserve Act was amended by the Edge law to permit an extension of foreign banking facilities through the establishment of new foreign banking corporations in which commercial banks were expressly permitted to own stock. This fact that commercial banks could hold the stock of Edge law corporations is sufficient reason for the Reserve Board's being given supervisory control. Moreover, Edge law corporations were designed to finance imports and exports, but especially to aid the movement of goods from American producers to foreign consumers. They were designed to do a foreign commercial banking business. The Edge law merely extended the provisions of the Reserve Act that had

previously permitted foreign banking. Since the banking business of Edge law corporations is largely commercial in character, the Edge law is not an attempt to graft onto the Federal Reserve System investment features that would have destroyed its integrity as a commercial banking system.

Whether Edge law corporations were or are desirable from the standpoint of practicality is really beside the point. The Reserve Act was extended by the Edge law to put the Federal Reserve System into more intimate touch with international finance. It is merely a matter of record that "rest in peace," in proper Latin phraseology, has been written over the mammoth corporation proposed to be operated under the Edge law.

Dreamer's dreams of international banks, which would restore mint pars of exchange and otherwise work out the difficulties of international finance, can be dismissed with scant consideration. They do, however, contain a warning. The capital of one such bank was to be composed largely of the promises to pay of "solvent foreign governments." The test of solvency was prompt payment of external obligations and the taking of steps towards disarmament. Foreign bonds, even of such "solvent governments," are scarcely to be considered banking capital. It is difficult, also, to see how the operations of such a bank would rectify foreign exchange when any adjustment depends so largely on measures taken by European nations themselves—such as deflation of their currencies and balancing of their budgets—to bring the purchasing power of their moneys more nearly into alignment with the purchasing power of American money. Exchange rates today are on a purchasing power parity. However fatuous such projects, they are conceived by those holding re-

sponsible legislative positions and it is not improbable that somehow, if a law were passed to establish such an international bank, that bank would get itself tied up with the Federal Reserve System. It is against such projects that the Federal Reserve System must be safeguarded by an alert and vigilant public opinion which allows no deviation from its commercial character.

Though the condition of business in the United States is affected by the play of world-wide economic and political forces and the Federal Reserve System is affected by the condition of business, that System touches the international financial structure immediately at one point, through its control of gold. How the Federal Reserve Board impounded gold is told in Mr. Case's article. The Reserve Board's control of the gold of the United States is now complete. Certain it is, also, that the flow of gold into the United States shortly after the outbreak of the War, but particularly since September, 1920, has resulted in such redistribution of the world's stock of monetary gold as to give the United States—the Federal Reserve Board—control of some 40 per cent of that stock.

In this connection the article of Dr. Sprague may be read with profit. There is within the Reserve System, as operated, an inherent power for expansion. The manner in which gold is handled is of the greatest importance and Dr. Sprague has indicated the dangers to be guarded against in the future as well as those which have not been met effectively in the past.

PURPOSE OF THE VOLUME

The purpose of this volume is naturally to be ascertained from the reading of the various articles contributed. Books have been written on the Reserve System. Some of them have given its

purposes and some have been devoted to its operations and operating mechanism. The editors assumed, however, that heretofore no opportunity has been offered to bring together in one volume the authoritative statements from those who were directly interested in framing and formulating the Act and were, therefore, familiar with its purposes; from those who were and are actively connected with the operation of the Reserve Banks and therefore competent to interpret their conduct, and from those who directly and indirectly make use of the Banks or are keenly interested to study the progress of the System.

Thus we have in this volume of *The Annals* the Reserve System as contemplated by its framers, as operated by those in charge, and as observed by those in a position to interpret the operations in relation to the purpose. In any event these three forces were sought and have responded. The relationship between purpose and operation is set forth and the limitations as well as the scope of the System have been shown.

It is pertinent to add that sight was never lost of the fact that the Federal Reserve System is not generally understood. It is unfortunate that it is distinctly misunderstood. If this volume is of any assistance in clearing up the misunderstandings and giving a better conception of the work and the mission of the Reserve Banks, the editors will feel fully rewarded. They owe everything to the contributors who have responded so capably and generously to their requests, often, it may be said, despite of engagements and the pressing demands of their own businesses. No editors were ever more fortunate in securing coöperation from contributors.

It is only an editorial hope that the volume may meet approval. It was fairly intended to produce a useful and practical work. Whether it does or does not perform a useful service, we feel justified in appending the message for the book suggested by the governor of a Reserve Bank: "It will not be easy reading; it may not be agreeable reading, but I think it mighty important that every business man should read it."

Outline of Banking History

From the First Bank of the United States Through the Panic of 1907

By B. H. BECKHART
Columbia University

THE United States was particularly fortunate in having as its first Secretary of the Treasury a veritable genius, whose program of fiscal reform quickly placed the new republic on a sound financial basis. As an essential part of his program, Hamilton urged the establishment of a National Bank in a report to Congress, dated December 13, 1790. Since the economic significance of banks was then but crudely understood, Hamilton, in this now famous document, first indicated the numerous advantages resulting from banking in general and from a National Bank in particular, taking occasion to dispel some of the current erroneous ideas on the subject.¹ After showing that no one of the three banking institutions² then in existence could be suitably employed as a National Bank, he laid down in great detail the plan for the new institution.³ The act chartering the bank modelled upon this plan, was signed by the President on February 25, 1791.⁴

¹ Hamilton's report may be found printed in full in the *American State Papers—Finance I.*, pp. 67-76.

² The Bank of North America founded in 1781, the Bank of Massachusetts in 1784, and the Bank of New York in 1784.

³ Hamilton's plan closely followed the charter of the Bank of England as it existed at that time.

⁴ The act provided for a capital of \$10,000,000, of which one-fifth was to be subscribed by the government. The administration was placed in the hands of twenty-five directors elected annually by the shareholders. Branches were to be established where the directors saw fit. The circulation was not to exceed the capital. State-ments of condition might be called for but not

The entire capital was subscribed within two hours on the day⁵ the subscription books were thrown open, and the Bank was ready to begin business on December 12, 1791, with Thomas Willing as president.⁶ From the very outset, the Bank proved to be a great success, in providing the country with a sound and elastic currency, in supplying the needed banking facilities, and in preventing any excess issue of state bank notes by having such state notes as were in its possession redeemed. In the performance of its fiscal functions, it transferred government funds and provided a safe depository for them; it also helped to collect the revenues and provided the bullion needed by the mint in coinage. Further, by 1795 it had loaned the government \$6,200,000. In order to procure funds to repay the loan, the government by 1802 had sold all of its stock at a profit of \$671,860, and while a shareholder had received \$1,101,720 in dividends of 8 $\frac{3}{8}$ per cent.

On April 20, 1808, the stockholders memorialized Congress for a renewal of the charter which expired in 1811. A month later, Albert Gallatin, then Secretary of the Treasury, in a report to Congress enumerated the fiscal services of the Bank and advised that the charter be renewed with a few changes. Nevertheless, the bill to continue the charter was defeated, the

oftener than once a week by the Treasury Department.

⁵ July 4th, 1791, at Philadelphia.

⁶ Formerly, president of the Bank of North America.

opponents charging that the Bank was a "money trust" controlled by foreigners,⁷ a tool in the hands of the Federalists, and that the act chartering the bank was unconstitutional—so the First United States Bank went out of existence on March 3, 1811.⁸

FINANCIAL CHAOS, 1811-1816

It was a most unfortunate time for the country, on the verge of a war with England, to be deprived of the services of the Bank. State banks sprang up on every hand to take its place. Their number increased from 88 in 1811 to 246 in 1816 and their circulation grew from 22.7 million dollars in 1811 to 100 millions six years later.⁹ Such a rapid inflation of the currency resulted naturally in the depreciation of bank notes in terms of gold, amounting at the maximum to 23 per cent in Baltimore, and 16 per cent in Philadelphia and New York.¹⁰

The revenues of the government, consisting largely of tariff duties, were for the most part collected in this depreciated currency, while it was necessary for the nation to make large disbursements of funds in New England where specie payments had been maintained. By reason of this condition, it has been estimated that the government lost \$5,000,000 from 1814

⁷ Though three-fourths of the stock was held abroad, the foreign shareholders exerted little control, as they were not allowed to vote through proxies.

⁸ By 1834 the process of liquidating the assets had been completed, the shareholders receiving in all \$434 for each \$400 share. The assets of the parent bank in Philadelphia were purchased by Stephen A. Girard, which was reopened on May 12, 1812, as "Girard's Bank."

⁹ This increase was due to two factors: (1) the suspension of specie payments everywhere during August of 1814 excepting in New England; and (2) to the withdrawal of the restraining influence of the Bank.

¹⁰ The specie was either driven abroad or into the New England States.

to 1817. Further, without the assistance of the Bank, the government had difficulty in selling its bonds (even when offered below par), and was forced to borrow sums from the state banks and to issue some 37 million dollars of "Treasury notes" which "ultimately degenerated into a kind of currency."¹¹ Writing in 1831, Gallatin stated that had the Bank been rechartered, the suspension might have been prevented and the state banks would have been restrained within proper bounds.

THE SECOND BANK OF THE UNITED STATES

As early as October 14, 1814, Secretary Dallas,¹² in a report submitted to Congress, called attention to the need for a National Bank, emphasizing the fact that such a bank could restore the depreciated currency to a gold parity and that in its fiscal relations with the Treasury would be of incalculable assistance. After seven unsuccessful attempts within two years, the charter of the Second Bank, closely resembling that of the First, was passed by Congress and became law on April 10, 1816.¹³ Through an agreement with

¹¹ Willis, H. P., *American Banking*, 1918, p. 209.

¹² Alexander J. Dallas from Pennsylvania, appointed Secretary of the Treasury, October 6, 1812.

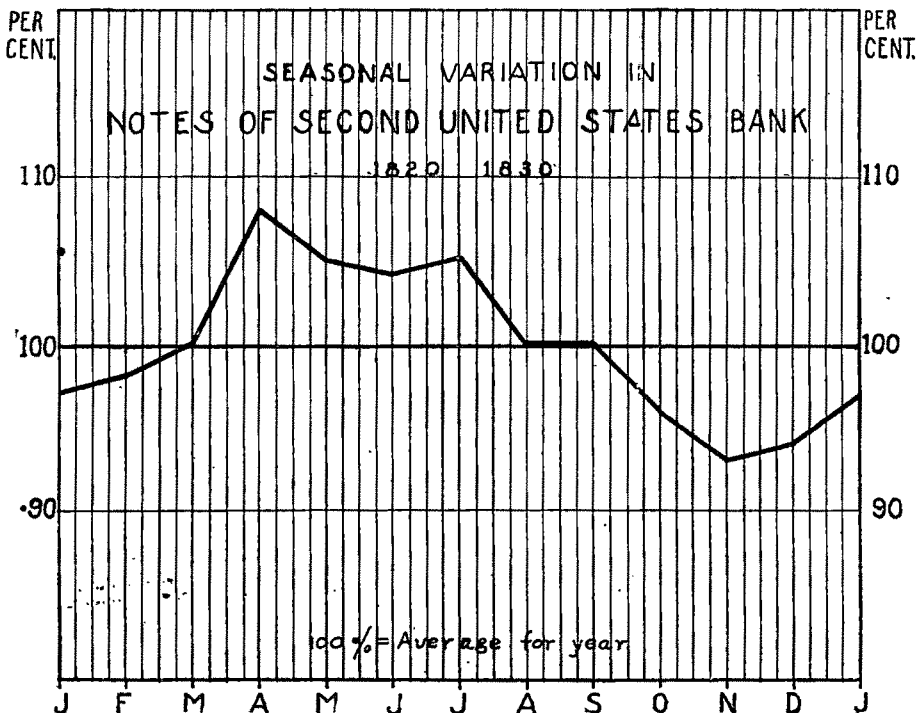
¹³ The act provided for a capital of \$35,000,000, of which the government subscribed one-fifth. There were to be twenty-five directors, twenty of whom were to be elected annually by the shareholders and five appointed by the government. Branches were to be established wherever the Bank thought necessary, managed by from seven to thirteen directors appointed by the parent bank. The circulation was not to exceed the capital. Deposits of public funds were to be made in the Bank unless the Secretary of the Treasury should otherwise direct. The Bank was required to pay the government a bonus of \$1,500,000 and to transfer public funds without charge. Weekly statements of condition might be called for and Congress was given the right to inspect the books of the Bank.

the state banks in the larger towns, the resumption of specie payments was brought about (nominally at least) by February 20, 1817; thus realizing the first purpose of the Bank. Due partly to governmental pressure and partly to a lack of banking training, the directors, at first, extended loans and rapidly increased the circulation, a policy which resulted in a heavy loss to the Bank and in the retirement of William Jones as president in January of 1819. Langdon Cheves, chosen as his successor, immediately inaugurated a policy of retrenchment and deflation. Under his management and later under that of Nicholas Biddle, the Bank became "the most powerful and best managed financial institution the country had ever seen."¹⁴ Its notes, circulating from Montreal to Mexico City, were safe and elastic. In transferring and dis-

bursing government funds, in furnishing domestic exchange, in paying the pensioners of the government, and in acting until 1833 as the sole depository of public moneys, the Bank was of great service to the whole people.

In his first message to Congress, on December 8, 1829, President Jackson expressed doubts as to the constitutionality of the Bank and the soundness of its notes. The President's hostility subsequently cooled, but when the Whig party at Baltimore in 1831 took the side of the Bank, there ensued a long and bitter struggle which ended in the defeat of the attempt to recharter it. The reasons as given by Professor Catterall for this opposition were the "widespread belief that the Bank was unconstitutional, the hostility of the states, the opposition of the state banks, the rise of democracy,

CHART I



¹⁴ Willis, H. P., *American Banking*. 1918, p. 210.

and the envy and hatred which the poor always feel for the rich.¹⁵

Upon the failure to re-charter the Second Bank, the era of central banks, modelled after those existing in Europe, passed. Banking in America entered upon entirely different lines of development. In the years that followed, the government was to miss keenly the fiscal services of the Bank, and the people, no longer protected by its restraining influence on the note issues of the state banks, suffered severely from the resulting financial chaos.

THE INDEPENDENT TREASURY

From 1791 to 1811, the First Bank was utilized to a large extent as a depository of government funds. After its charter had expired the government was forced to use the services of state banks, from whom no security was required for the moneys deposited, but by whom in accordance with an agreement entered into, weekly and monthly statements of condition were to be submitted to the Secretary of the Treasury. The use of state banks as depositories proved so unsuccessful that it was provided, in the charter of the Second Bank, that it was to be the sole depository except in such places where the Bank had no branches, or when the Secretary of the Treasury deemed it unwise to employ it as such. This latter provision of the act was taken advantage of in September of 1833 by Secretary Taney, who "ordered the collectors of revenue to cease depositing in the Bank of the United States and to employ designated state banks for that purpose."¹⁶

A contract was entered into between these banks (the so-called "pet banks")

and the government, whereby they were required to give security for the funds deposited "whenever the deposits should exceed one-half the bank capital paid in,"¹⁷ or whenever the government deemed it necessary. The banks agreed to perform for the government all of the fiscal services formerly rendered by the Bank of the United States, to render weekly reports, and to submit to examinations when the Secretary thought necessary. On June 23, 1836, an act was passed "to regulate the deposits of the public money" following closely the provisions of Taney's contracts.¹⁸ In his annual message, September, 1837, Van Buren showed that the custody of the public funds by state banks had proved very unsatisfactory and urged that the government take care of its funds itself and require that all dues be paid in specie. While this suggestion was being considered, the public funds were left in the hands of the collecting officers and a few banks.

The bill creating the Independent Treasury, finally passed on July 4, 1840, was repealed on August 13, 1841, and was re-passed on August 6,

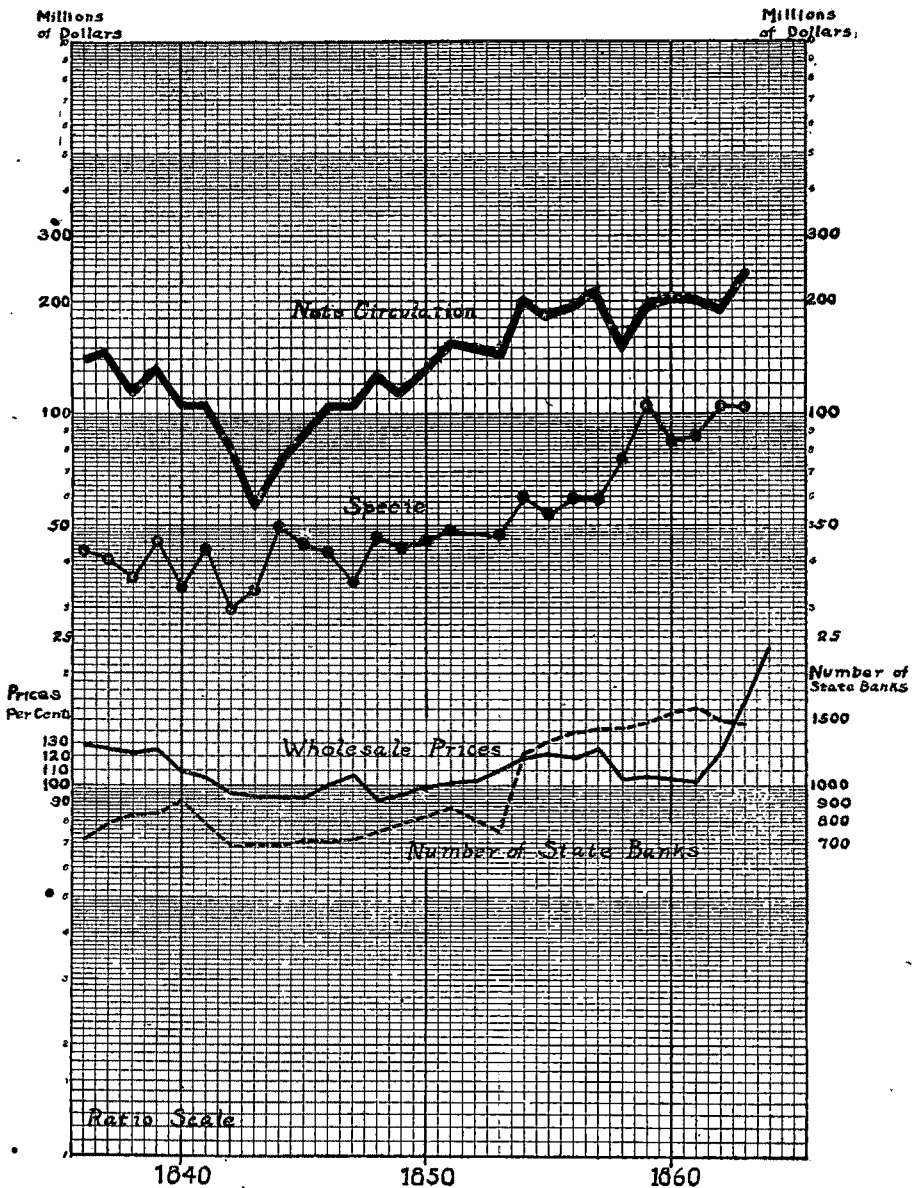
¹⁷ Kinley, David, *Independent Treasury*. 1910, pp. 26, 27.

¹⁸ This act provided that the banks selected as depositories must furnish the Secretary with a statement of their condition, a list of their directors, the current price of their stock and a copy of their charter. Further, the Secretary might examine the general accounts. Such banks must redeem their notes upon demand, and no bank issuing notes of a denomination of less than \$5 was to be chosen. Collateral against the funds so deposited could be called for whenever the Secretary deemed this necessary, and must be called for if the deposits exceeded one-half the Bank's capital. In return for such deposits, the banks must render the government all the services and duties heretofore required of the Second Bank. It was further provided that if the government's deposits exceeded a fourth part of the Bank's capital for at least three months, interest at the rate of 2 per cent per annum must be paid on this excess.

¹⁵ Catterall, Ralph C. H., *The Second Bank of the United States*, p. 164.

¹⁶ Kinley, David, *Independent Treasury*. 1910, pp. 26, 27.

CHART II
Statistics of State Banks, 1836-1863



1846.¹⁹ The act provided that all receivers of public moneys must keep such funds as were received by them

¹⁹ The repeal of the act in 1840 necessitated a return to the use of state banks as depositories, until the act was repassed.

safely without loaning, using or depositing them in banks. Further, on and after June 1, 1847, all payments of taxes, duties, etc., to the United States must be made in gold or silver or Treasury notes. New York, Phila-

delphia, Washington, Charleston, New Orleans and St. Louis were made the principal centers of deposit.

STATE BANKS, 1836-1863

In the course of these years, "almost every type of banking system was attempted, and the result was the accumulation of a great fund of experience"²⁰ mostly as to the best way in which not to conduct banking. In New England and in New York the efforts to regulate banking through state and private means were much more successful than in the rest of the country. Thus, by an act passed in 1829, New York State endeavored to protect both the depositor and note holder by means of a safety fund which was built up by contributions from the banks and which was to be used to meet the obligations (excluding capital) of the failed banks. This scheme was not very successful until, beginning with 1842, the use of the fund was limited strictly to the redemption of the notes of failed banks. The notes of the banks organized under the Free Banking Law of 1838 in New York State were protected, not by the safety fund, but by deposits of certain specified bonds or mortgages with the state comptroller.

The success of the First and Second United States Banks led many states to charter banks modelled upon these. Among the more successful were the State Banks of Indiana, Louisiana and Ohio, but the Bank of the Commonwealth of Kentucky, the Banks of Alabama, of Mississippi, of Arkansas, of Illinois and the Union Bank of Florida ended in dismal failures, leaving the citizens with millions of dollars of unredeemed notes and worthless deposit accounts.

In the western and southern states, "due to the lack of public regulation,

to the want of any uniform system—and to the significant fact that public opinion was both torpid and unintelligent,"²¹ the losses to the people from poorly and dishonestly managed banks were enormous. Some of these banks were established by special charters, some, under the Free Banking Laws; few seemed to have been prudently or wisely managed. Some, called "wild-cat" or "red-dog" banks, were located in remote sections, in order to keep their notes in circulation longer and render redemption more difficult. The lack of any uniformity in the bank notes, the failure adequately to protect them, and the absence of governmental control were among the motivating factors leading to the passage of the National Bank Act.

THE NATIONAL BANKING SYSTEM

The national banking system, resembling somewhat the free banking system of New York State, was recommenced by Secretary Chase as early as December, 1861. After two defeats, due largely to the opposition of the state banks, the bill establishing the system became a law February 25, 1863; but in accordance with the recommendations of Mr. Hugh McCulloch, the first Comptroller of the Currency, it was completely revised and passed again on June 3, 1864.²²

The predominating motive in Secre-

²¹ White, Horace, *Money and Banking*. 1914, p. 331.

²² The chief differences in these two bills were as follows:

1. The Act of 1863 required a smaller minimum of capital for a new bank than did the Act of 1864, and required that a smaller proportion be paid in before beginning business, and allowed a longer time for the payment of the remainder.

2. The Act of 1863 permitted loans on real as well as personal security.

3. The prohibition of issuing notes of a denomination less than \$5 took place at once in the former act.

4. By the former act all national banks were

²⁰ Willis, H. P., *American Banking* 1918, p. 212.

tary Chase's mind for the passage of the act was the establishment of a uniform currency. On January 1, 1862, there were in the United States, 1,496 banks issuing some 7,000 different kinds of circulating notes, "based on a great variety of securities, of different qualities and quantities,"²³ and some based on no security at all. The framers of the Act not only wished to rid the country of such conditions as these, but it was felt by many also that the issues of state bank notes were frequently redundant, were subjected to violent expansions and contractions, and were unequally distributed among the various states.²⁴

The increased demand for bonds, which such a system would create, was to Secretary Chase a motive of secondary importance.²⁵ Additional advantages of the system, of course, were that such banks could act as depositories of government funds, float loans, stimulate patriotism, and, because of being a national system, prevent future rebellions.

By the Act of 1864 the capital of the national banks was proportioned to the population as follows:

	<i>Capital</i>
Cities with a population of 6,000 or less.....	\$50,000
Cities with a population of from 6,000 to 50,000.....	100,000
Cities with a population of 50,000 and above.....	200,000

required to maintain a reserve of 25 per cent against notes and deposits.

5. The Act of 1864 makes more complete provision for the conversion of state banks into national associations.

²³ Dewey, D. R., *Financial History of the United States*. 1918, p. 321.

²⁴ Chart II, brings out the first two points in a striking fashion.

²⁵ As a matter of fact, at the time of Lee's surrender, the bonds bought by the national banks to secure their circulation were less than 4 per cent of the total bonds floated by the government during the war.

of which 50 per cent was to be paid in cash before commencing business and the remainder within five months at a rate not less than 10 per cent per month.²⁶

Each national bank was required to buy government registered bonds to an amount not less than \$30,000 or less than one-third of the capital stock paid in. When such bonds had been deposited with the Treasurer of the United States, the national bank would be entitled to receive notes up to 90 per cent of the par or market value of the bonds whichever was the lower, but no bank was permitted to issue an amount of notes greater than its paid-in capital. Thus the circulation could at no time exceed the paid-in capital of all the banks, and in addition an absolute maximum of \$300,000,000 was placed on the note issues. The notes were to be receivable at par in payment of all dues to the United States except for duties on imports, and to be paid out at par for all the debts of the United States except interest on the public debt, and in redemption of the national currency.²⁷

It was further provided that national banks in the reserve cities must make arrangements to redeem their currency in New York City, and, simi-

²⁶ The Act made an error in not proportioning capital to the bank's liabilities instead of to the population of the town in which the bank happened to be located. The requirement that the capital be paid in cash was an effort to stop the vicious practice begun at the time the First Bank was chartered of allowing the shareholders to contribute their part of the capital in their own discounted notes.

²⁷ Inasmuch as the Loan Acts of March 3, 1863 and March 3, 1864, provided that both principal and interest be paid in coin, and the Loan Acts of February 25, 1862, June 30, 1864 and March 3, 1865, provided for the payment of the interest in coin, in order to help sustain the public credit, it was necessary, therefore, as specie payments were suspended from 1862 to 1879, that the government collect its import duties in gold in order to obtain a supply which could be used as required by the above acts.

larly, national banks in country towns must redeem their notes at some bank located in a reserve city.²⁸

By an act passed on March 3, 1865, \$150,000,000 of the national bank notes were to be apportioned among the national banks in the several states according to the respective populations, while the remainder was to be proportioned by the Secretary of the Treasury "having due regard to the existing banking capital, resources, and business of such States, Districts, and Territories."

State bank notes were forced out of circulation by a provision in the Revenue Act of March 3, 1865, levying a 10 per cent annual tax on the notes paid out after July 1, 1866.²⁹

That the entrance of state banks into the system was slow at first, was due, according to Mr. McCulloch, to the fear on their part that the national banking system might be a repetition of the free banking system in its worst aspects. Up to November 25, 1864, only 168 state banks had entered the system, but with the retirement of the state bank notes in sight, only 244 remained out by the end of 1868, and 1,643 were members of the national banking system. An amendment to the National Bank Act passed on

²⁸ New York was the only central reserve city, whereas the reserve cities were St. Louis, Louisville, Chicago, Detroit, Milwaukee, New Orleans, Cincinnati, Cleveland, Pittsburg, Baltimore, Philadelphia, Boston, Albany, Leavenworth, San Francisco, Washington City, and later, Charleston and Richmond.

Banks in New York City were to keep on hand a 25 per cent lawful money reserve against both notes and deposits, while banks in the reserve cities were to keep a 25 per cent reserve but one-half of this might be deposited with a New York City bank. Banks in other towns must keep a reserve equal to 15 per cent, three-fifths of which could be kept on deposit with a bank in a New York or in any reserve city.

²⁹ State bank notes made their last appearance in the Treasury reports on July 1, 1876, when the circulation was \$1,047,335.

June 20, 1874, did away with the lawful money reserve which was formerly required to be held against the circulation, provided for the 5 per cent redemption fund, provided that hereafter banks would have to redeem their notes only at their own counters or at the Treasury Department, and also provided that a bank which wished to retire its circulation might withdraw the bonds deposited with the Treasurer of the United States, provided that lawful money to an equal amount be deposited to redeem the circulation still outstanding; but in no case should the amount of bonds on deposit for circulation be reduced below \$50,000.³⁰ By the Resumption Act of January 14, 1875, the provisions in the former acts regarding the aggregate amount of national bank notes in circulation and their distribution were repealed.

From 1882, when the national bank notes in circulation touched the highest figure up to that time, 361 million dollars, the amount outstanding declined rapidly until in 1891 there were only 172 million dollars in circulation, and of this amount more than 50 millions were secured by lawful money. Naturally one would expect a bank's circulation to increase as the population grew and the nation's resources were developed, but it must be remembered that these bank notes based on government bonds were alone of their kind in the world, and as the yield on government bonds³¹ was decreasing

³⁰ By the Act of July 12, 1882, banks with a capital of \$150,000 or less were permitted to withdraw bonds, which they had deposited against their circulation, down to one-fourth of their capital, provided that they deposit enough lawful money to retire the notes not covered by bonds, but not more than \$3,000,000 of National Bank notes were to be so retired in any one month. All bond requirements were repealed by the act of June 21, 1917.

³¹ By reason of the steadily rising prices of the bonds.

throughout this period, it was no longer as profitable for the banks to take out notes, as the so-called double-profit had declined. From 1891 to 1899, the amount of national bank notes increased, due to the increased yield on government bonds, and to special demands for money during the panic of 1893.

THE GOLD STANDARD ACT OF 1900

This act derives its name from the fact that it provided that the dollar, consisting of twenty-five and eight-tenths grains of gold, nine-tenths fine, should be the standard unit of value, and all other forms of money should be maintained at a parity of value with the standard.³²

The Act also allowed national banks with as small a capitalization as \$25,000 to be formed in towns of 3,000 inhabitants or less.³³ This led to a rapid increase in the number of national banks from 3,583 in 1899 to 4,165 in 1901.

Though the notes to be issued by a national bank were at no time to exceed its paid-in capital, it was provided that they could be issued hereafter up to the full market or par value of the bonds deposited, whichever was the lower, instead of only up to 90 per cent of such value. The refunding of the 5 per cent bonds maturing in 1904, the 4 per cent maturing in 1907, and the 3 per cent maturing in 1908, representing a total amount of 839 million dollars, into 2 per cent bonds maturing in 1930, was provided. One purpose of

³² This act simply affirmed the gold standard which had really been established in the act of 1873 which demonetized the silver dollar.

³³ As established by the Act, the capital requirements were:

	<i>Capital</i>
In towns of less than 3,000.....	\$25,000
In towns of 3,000 to 6,000.....	50,000
In towns of 6,000 to 50,000.....	100,000
In towns with more than 50,000 people	200,000

this measure was to provide a basis for the bond-secured national bank notes by postponing the maturity of a large part of the public debt.³⁴ The tax on the notes issued remained at 1 per cent per annum if the bonds bore more than 2 per cent interest, but if they bore 2 per cent interest or less, this tax was reduced to one-half of 1 per cent.

Under the stimulus of the Act, especially by reason of allowing national banks to issue notes up to the par value of the bonds, and by reason of the increased yield of government bonds, the amount of notes in circulation increased rapidly from 332 million dollars in 1900 to 609 millions in 1907.

The Gold Standard Act of 1900 was not a constructive piece of legislation, as it did little else than modify slightly the technical details in the organization and operation of the national banks, and made no attempt to remedy any of the basic defects of our banking system.

THE PANIC OF 1907

Beginning with 1896, prices in the various gold standard nations, which had been falling for nearly a generation, began to turn upward. This change was due to an increase in the production of gold and use of money substitutes, and to the wasteful exploitation of the world's natural resources. The rise in the price level led to such a stimulation of industry that until 1907, aside from a local crisis in Germany in 1900 and the "rich man's panic" of 1903 in America, the period was one of general prosper-

³⁴ Horace White has estimated that the loss to the government on additional interest paid by extending the maturity of these bonds amounted to \$244 millions—a tremendous price to pay for an increase in circulation up to 1907 of only 277 millions of dollars. *Money and Banking*, Horace White. 1914, p. 406. •

ity. This expansion in business and the resulting increase in speculation intensified the demand for capital. As the demand could not be met from the current savings of the people, commercial banks began to make larger and larger extensions of credit, a policy which resulted in progressively lower reserves and forced the banks to raise discount rates and curtail extensions of credit. This retrenchment was accompanied by a diminishing purchasing power on the part of the great mass of consumers, for wages lagged behind prices in the upward movement, forcing the sale of products at sacrifice prices. This condition checked the rise in the price level and brought on a period of depression throughout the world.

In America, as in the nations of Europe, prices, wages and interest rates rose one after the other. While this differential between prices and the cost of production lasted, the speculator optimistically capitalized the future earnings of industry, and the prices of stocks soared, reaching a peak in 1906.

Toward the end of that year it was apparent that the demand for capital was such that borrowers had difficulty in being accommodated even though bank credits were strained to the limit. In January and February of 1907 large blocks of securities had to be sold to repay the loans previously procured from the London market through the drawing of finance bills. Prices of stocks fell steadily and crashed in March. After a slight recovery the market began to fall again in August and was still falling when the panic occurred.

In addition to the general causes of the world crisis of 1907, there were elements of weakness in the American banking system, reflected chiefly in the New York money market, which caused the crisis here to degenerate into a panic. One of the most significant facts in the development of American banking from 1896 to 1907 was the rapid growth of state banks and trust companies. State banks increased particularly throughout the West and South as the requirements of the state

TABLE A—GROWTH OF STATE BANKS AND TRUST COMPANIES, 1896, 1902, 1907
STATE BANKS

Year	Number	Capital (Millions)	Individual Deposits (Millions)	Cash Holdings (Millions)	Proportion of Cash to Deposits
1896	3,978	310.8	695.7	101.0	14.5%
1902	5,433	388.3	1,698.2	178.6	10.5
1907	10,352	664.2	3,068.6	254.0	8.3

TRUST COMPANIES

Year	Number	Capital (Millions)	Individual Deposits (Millions)	Cash Holdings (Millions)	Proportion of Cash to Deposits (National Bank Notes Included)
1896	257	173.5	586.5	26.8	4.6%
1902	636	329.6	1,525.9	31.9	2.1
1907	1,485	845.4	2,061.6	101.7	4.9

banking laws were less strict there than those of the National Bank Act. The greatest growth in trust companies occurred in the East, as there they were not subject to the same strict requirements as were state and national banks. The growth of these two types of banking institutions is shown in Table A on the preceding page.

As the proportion of cash to the individual deposits of state banks and trust companies, amounting to 8.3 per cent and 4.9 per cent respectively, in 1907, was woefully inadequate to meet a heavy drain, they carried balances with national banks which they planned to withdraw in time of an emergency. On August 22, 1907, they had 196.3 million dollars on deposit with the national banks in New York City. Though these deposits would surely be withdrawn during a crisis, the national banks in the performance of their functions as reserve agents, "did not build up reserves any larger than they would have carried had they been received from that class of conservative individuals who habitually maintain large balances with their banks."³⁵ Furthermore the national banks in New York City held a considerable porportion of the deposited reserves of the national banks located in the interior, amounting on August 22 to 213.8 million dollars.³⁶ Against the certainty of having the bankers' balances withdrawn during a crisis, the New York banks maintained the ridiculously low cash reserve of 224 million dollars in 1906 (though this was slightly above the legal minimum) against total deposits (including those made by the government) of 1,162 millions, of which at least a half consisted of bankers' balances. That they would be unable to meet heavy with-

drawals during a crisis, a time when banks ought to increase their loans to save the solvent but temporarily embarrassed borrower, is obvious.

Moreover, the Secretary of Treasury, Leslie M. Shaw, encouraged other unsound banking practices by a series of innovations which he introduced from 1902 to 1907. Among the more radical of his changes, was the exemption of national banks from the maintenance of a cash reserve against government deposits, the acceptance of other than United States bonds as securities for government deposits, the depositing of government funds where money seemed tight, and the artificial stimulation of gold imports.

The cause directly leading to the panic was the announcement, on October 21, 1907, by the National Bank of Commerce of New York that it would no longer clear for the Knickerbocker Trust Company, whose management was under suspicion. This action precipitated a run on the Trust Company, which was forced to suspend the following day after paying out eight million dollars. Immediately, the alarm spread throughout the land, a wild scramble for money ensued, banks and individuals hastened to withdraw their funds from the New York City banks, and the panic was on. The New York City banks being ill prepared to meet these heavy withdrawals were forced to suspend cash payments on October 26. The rest of the country immediately followed their example.

THE DEFECTS IN THE AMERICAN BANKING SYSTEM AS REVEALED IN THE PANIC OF 1907

One of the most serious of these defects was the rigidity and immobility of the reserves. The proportion of reserves to be held by national banks against their deposits were definitely

³⁵ Sprague, O. M. W., *History of Crises Under the National Banking System*. 1910, p. 226.

³⁶ See footnote 37.

fixed by statute.³⁷ In compliance with the provisions of the Act, on August 22, 1907, national banks held cash and deposited reserves as shown in Table B.

The provision allowing a certain proportion of the reserves to consist of balances with other banks was intended to provide the interior banks with exchange to sell on New York and other important commercial centers. However praiseworthy this intention might

brokers, as call loans, which they felt were the most liquid form, in the absence of a general discount market. The capacity of the interior banks to meet their depositors' demands during a panic depended in part upon their ability to withdraw the funds which they had deposited with their New York reserve agent. But the New York banks were unable to meet heavy drains of cash, due to the insufficiency of their reserves, and the unlikeli-

TABLE B—CASH AND DEPOSITED RESERVES OF NATIONAL BANKS, AUGUST 22, 1907

	Number of Banks	Deposits (millions)	Cash Reserves (millions)	Deposited Reserves (millions)
Central Reserve Cities	6*	\$1,205.5	\$315.5	....
Reserve Cities.....	30*	1,423.4	196.6	\$165.7
Others.....	6,177	2,627.2	216.8	226.7
Total.....	6,544	\$5,256.1	\$728.9	\$392.4

Percentage of cash reserves against deposits = 13.87%.

be, the provision led to a pyramiding of reserves, so that our credit structure represented an inverted pyramid with a relatively small cash apex in New York City. In fact, of the reserves deposited with national banks in central reserve cities, more than two-thirds were held by the banks in New York City. In August of 1907 they held cash reserves against these bankers' balances amounting to 26.5 per cent, and, as was customary, had loaned a large part of the remainder to

character of call loans, secured by stocks and bonds, during a panic when the prices of securities were tumbling. Far from being able to repay his loans, the broker needed additional help from bankers at such a time.³⁸

Realizing that it might be impossible, during a panic, to withdraw their deposited funds, national banks placed great dependence upon their cash reserves to meet the emergency. But these, scattered as they were in 1907 among 6,429 banks, were ineffective in allaying the panic. When the financial storm broke each little bank endeavored to strengthen and to guard its own reserve against withdrawals, as there was no established agency

³⁷ The provisions were, that national banks in New York City, St. Louis and Chicago (known as the central reserve cities) must keep a lawful money reserve of 25 per cent against their deposits; that national banks in some forty-seven other large towns (reserve cities) must maintain a 25 per cent reserve but one-half of this might be deposited with a national bank in a central reserve city; all other national banks were to maintain a 15 per cent reserve but three-fifths of this might be deposited with national banks in reserve or central reserve cities.

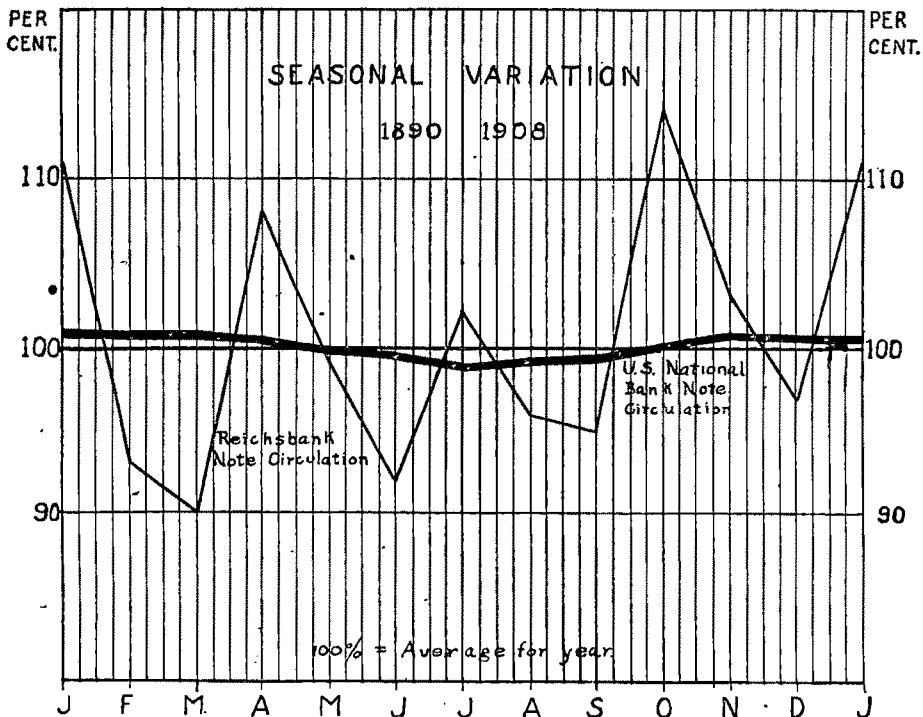
³⁸ Prof. Sprague finds that out of a total loan increase by the national banks in New York City between August 22 and December 3, 1907 of sixty-three million dollars, call loans account for fifty-four million dollars.—*History of Crises Under the National Banking System*, p. 301.

which would grant it aid through the extension of loans or the discounting of its paper. Once the reserve had fallen to the legal minimum, the bank was not expected to extend any further accommodation to its customers. The cash reserves of national banks, though large in the aggregate, were so scattered, hoarded and immobile as to be ineffective during a time of financial difficulty.

Another defect in our banking system revealed in 1907, as in every other panic, was the inelasticity of the national bank notes. An elastic currency should expand to meet seasonal and cyclical demands for money, and when these demands have been satisfied, should contract. Cyclical demands occur at the time of a crisis, for then business confidence is at a low ebb and

money, rather than credit instruments, is demanded as a medium of exchange. The suspension of specie payments, following the failure of the Knickerbocker Trust Company resulted in a premium on currency ranging as high as 4 per cent. The Honorable A. Piatt Andrew has estimated that to meet the demands for money, 334 million dollars of currency substitutes were issued, including clearing house loan certificates and checks, cashiers' checks and manufacturers' pay checks.³⁹ Our bank notes did not begin to increase until the first part of November and by the first of the year had increased by only fifty-four million dollars. The reason is found in the time it took to buy the necessary bonds and to comply with the governmental red tape.

CHART III



³⁹ Andrew, A. Piatt, "Substitutes for Cash in the Panic of 1907." *The Quarterly Journal of Economics*, August, 1908.

Seasonal demands for money arise from periodically recurring needs, such as the demands of the farmers for money each fall to harvest and market their crops. As the national bank notes failed to expand, the interior banks secured much of the money needed by withdrawing their deposits from the New York banks. To the extent that the New York banks met this demand with lawful money, their reserves were lowered, necessitating a contraction of loans and forcing up interest rates. Chart III showing the seasonal variations (with secular and cyclical tendencies removed) in the national bank notes and the notes issued by the Reichsbank, illustrates in a striking fashion the inelasticity of the former.

Such powers of expansion and contraction as the national bank notes possessed, depended upon the yield of government bonds, for should this increase, the double profit would rise and it would become profitable for banks to force the notes into circulation.⁴⁰

The seasonal movements of currency into and out of the New York City banks, producing a dearth of money at one time and a plethora at another, caused interest rates to vary from artificially low levels to abnormally high. Thus the average weekly low call money rate from 1890 to 1908 was 2.31 per cent, occurring in the second week of June, while the average high, was 7.38 per cent,⁴¹ occurring in the fourth week of December. Had the seasonal demands been met as was true on the Continent, by an actual increase in the amount of currency, instead of by shifting funds from one

section to another, and had this currency contracted, once the need was satisfied, interest rates could have been fairly stabilized. Furthermore, due to the immobility of reserves, and the concentration of banking capital in the East, there were considerable sectional disparities in interest rates which could not be eliminated without central reserve banks.

From time to time, the government endeavored to extend relief to the banks in order to counteract the evils in our banking system. The innovations of Secretary Shaw have been noted. Mr. George B. Cortelyou, his successor, continued this policy. After the panic had begun, he transferred to the national banks in New York City (from October 21 to October 31) nearly thirty-eight million dollars to help them meet their withdrawals. Later he offered for sale 150 million dollars of bonds to stimulate the issue of national bank notes. The government had to choose between interfering in the money market in this way or keeping its funds locked up in the sub-treasuries. This latter policy would have had the effect of making the currency redundant at the time the government made disbursements and scarce when its taxes were collected.⁴²

⁴² The Act passed in February 25, 1863 establishing the national banking system amended the Independent Treasury Act so as to allow national banks designated by the Secretary of the Treasury to be depositaries of public funds, except receipts from customs. These banks were required to give security by the "deposit of United States bonds and otherwise." By an act passed on March 3, 1901 the Secretary of the Treasury was expected to "distribute the deposits herein—so far as practicable equitably between different States and sections." Secretary Shaw, in 1903, began to accept other than United States bonds from the banks against government deposits, interpreting the words "and otherwise" to mean "or otherwise." By the Act of March 4, 1907 it was provided that receipts from customs might be placed in designated depositaries.

⁴⁰ See pages 8 and 9 for a further illustration of this point.

⁴¹ Kemmerer, E. W., *Seasonal Variations in the Relative Demand for Money and Capital in the United States*.—1910, p. 15.

Of course such policies as introduced by Secretary Shaw were but palliatives for the situation and could not by themselves remedy the defects of our banking system.

EFFORTS AT REFORM

It was imperative that the defects in our currency and banking systems should be remedied, if the nation were to escape the disaster, humiliation and ruin of recurring panics. The members of the American Bankers Association were among the first to realize the necessity for reformation, and endorsed, at a meeting held in Baltimore in 1894, a plan of reform known thereafter as the "Baltimore Plan." This plan proposed that government bonds be eliminated as security for national bank notes, and provided for their issue on much the same conditions that govern the issue of the Canadian bank notes.⁴³

About the same time in a report to Congress, Mr. John G. Carlisle, Secretary of the Treasury from 1893 to 1897, proposed a plan of reform resembling in its main outlines the Baltimore Plan, but with the addition that the provisions in the National Bank Act requiring banks to main-

tain a reserve against deposits be repealed.⁴⁴

On November 18, 1896, a resolution was adopted by the Board of Governors of the Indianapolis Board of Trade inviting representatives from the boards of trade of sixteen middle western cities to assemble at Indianapolis in December of 1896 "for the purpose of considering the advisability of calling a larger conference,—to consider the propriety of creating a non-partisan commission, to which shall be assigned the duty of formulating a plan for the reform of our currency system."⁴⁵

Representatives from the boards of trade and similar commercial bodies of eleven of the cities invited attended this preliminary conference and issued a call for a non-partisan monetary convention of business men to convene at Indianapolis on January 12, 1897. Delegates from twenty-six states and the District of Columbia attended the convention, at which it was unanimously agreed that an executive committee of fifteen be appointed which would endeavor to procure at the next session of Congress legislation for the appointment of a Monetary Commission by the President, to consider the entire question of currency and banking reform. In case this effort failed it was provided that the executive committee should

⁴³ The "Baltimore plan" proposed that government bonds be eliminated as security for bank notes and provided that each National Bank be allowed to issue notes up to 50 per cent of its paid-up, unimpaired capital subject to a tax of one-half of one per cent per annum on the average amount of notes outstanding, and further that an additional circulation, known as emergency currency, equal to 25 per cent of the bank's paid-up unimpaired capital be allowed subject to a heavier tax. Each bank issuing notes was to contribute an amount to a central guarantee fund equal to 5 per cent of its notes in circulation, from which the notes of failed banks were to be paid. If the fund were not sufficiently large for this, the remainder of the notes were to be redeemed from the assets of the failed bank. A 5 per cent redemption fund was to be maintained as at present.

⁴⁴ Carlisle's plan closely followed the Baltimore plan, but differed in this respect that in addition to the 5 per cent guaranty fund, he would require each national bank issuing notes to maintain 30 per cent lawful money reserve, consisting of United States notes including the Treasury notes of 1890, against the notes issued. State banks were to be allowed to issue notes in accordance with these provisions. He also proposed that the provisions in the National Banking Act requiring a bank to maintain reserves against deposits be repealed.

⁴⁵ *Report of the Monetary Commission of the Indianapolis Convention, Chicago.*—The University of Chicago Press, 1898. p. 5.

select eleven men to make a thorough investigation of the monetary needs of the country. The Commission of Eleven was appointed and held their first meeting on September 22, 1897, in Washington. After a series of conferences lasting through the fall, a preliminary report was adopted on December 17, while the preparation of the final report was entrusted to J. Laurence Laughlin, a member of the Commission. This report was completed by April of 1898. The preliminary report simply states the Commission's plan of reform, while the final report deals in an exhaustive way with the subject of money and banking from a theoretical, historical and statistical standpoint, and is a noteworthy contribution to economics.

After advising that the existing gold standard be maintained the Commission proposed that national banks be allowed to issue notes up to the amount of their paid-up unimpaired capital, exclusive of so much as is invested in real estate. For the first five years after the passage of the proposed measure, the notes issued up to 25 per cent of a bank's capital were to be secured by government bonds, but thereafter the amount of bonds required to be deposited, before notes might be issued, was to be reduced by one-fifth each year. The notes issued in excess of 60 per cent of the capital and not in excess of 80 per cent were to be taxed at the rate of 2 per cent per annum, while those issued in excess of 80 per cent were to be taxed at the rate of 6 per cent per annum. In order to

protect the noteholders from loss, each bank was to contribute to a guaranty fund an amount in gold equal to 5 per cent of its circulation, from which the notes of failed banks were to be paid. In case that the fund became impaired, by reason of payments made to redeem the notes, the Comptroller of the Currency was authorized to make an assessment upon all banks in proportion to their circulation. The present 5 per cent gold redemption fund was to continue.

The plan for banking reform included the proposals that the present reserve requirements be maintained against deposits with the exception that one-fourth of the reserves required should be held in coin in the vaults of the bank. The establishment of branch banks was provided for in case the Comptroller of the Currency approved. It was further recommended that the organization of national banks in towns of 4,000 or less with a minimum capital of \$25,000 be permitted.

The Commission's proposals would have provided America with a safe and elastic currency, but would not have remedied any of the other defects of our banking system. These could not be removed by a modification of the then existing system, but required the introduction of central reserve banks. The work of the Commission is valuable, not because of its immediate effect upon legislation, but for the reason that it awakened the public conscience to the necessity of banking and monetary reform, and paved the way for the final reformatory measures.

The Studies of the National Monetary Commission

By N. A. WESTON

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THE National Monetary Commission had its origin in the financial and banking panic of 1907. That astonishing disturbance and collapse of credit was one of the most unbecoming, if not disgraceful, episodes in our financial history. Popular clamor followed. When the air had cleared it was seen that the trouble was due to the banking system, which, ill-adapted to supply the needs of a progressive industrial nation under normal conditions, was utterly inadequate for the preservation of business equilibrium and the allaying of distrust in times of business accident and unexpected strain.

Dissatisfaction with our banking system began, however, long before the panic of 1907. The banks received a share of the blame for the crises of 1873 and 1893, while during the ten years of intense business activity preceding the panic of 1907, banking reform was a question of almost constant public agitation. This was a period of rapid, indeed almost revolutionary, changes in industrial and commercial organization, but the development of banking seemed to lag behind, owing, it was believed, to the rigid character of the banking laws. The panic of 1907 brought the criticism of the banking system to a climax and the Congress which assembled in December of that year, some weeks after the outbreak of the panic, was flooded with bills designed to reform the monetary and banking systems of the country.

In this aroused state of public opinion some action by Congress was inevitable, but it was soon realized that widely divergent views as to

what was needed to correct the evils of the existing situation, conflicting business interests and partisan political aims, would prevent the enactment of any thorough-going measure of reform. The leaders of the dominant party in Congress adopted, therefore, a temporizing policy and secured the passage of a law, commonly known as the Aldrich-Vreeland Act, approved May 30, 1908, providing for the issuance of emergency currency under certain conditions. This act was a makeshift measure and must be regarded as a political rather than a financial expedient. It was passed with but little debate and without previous consideration by the regularly constituted committee of either house of Congress. It was intended to satisfy the urgent public demand for action by Congress and to enable the party in power to say that provision had been made against a recurrence of the troubles that had afflicted the country in the preceding autumn.

THE MONETARY COMMISSION AND ITS DUTIES

But the Aldrich-Vreeland Act also created the National Monetary Commission, to be composed of nine members from the Senate and nine from the House of Representatives, prescribed its authority and duties and made an appropriation to cover the necessary expenses of its work. The work of the Commission is clearly defined in Section 18 of the Act which provides:

That it shall be the duty of this commission to inquire into and report to Congress at the earliest date practicable, what changes are necessary or desirable in

the monetary system of the United States or in the laws relating to banking and currency. The commission shall have the power, through subcommittee or otherwise, to examine witnesses and to make such investigations and examinations, in this or other countries, of the subjects committed to their charge as they shall deem necessary.

Within a short time after the passage of the law, the National Monetary Commission was organized with Senator Nelson W. Aldrich, of Rhode Island, as chairman and Congressman E. B. Vreeland, of New York, as vice-chairman. The Commission was a purely political body. The law restricted membership to senators and representatives in Congress. All sections of the country, including sixteen different states, were represented in its original composition. The members could hardly be regarded as experts or even students of banking and currency problems and only a few of them had had any legislative experience with such questions. The Commission was, therefore, forced to depend in large measure on outside help in making its inquiry and preparing its recommendations. Almost from the beginning, the work of the Commission was personally directed by Senator Aldrich and was continued for a period of more than three years with some considerable intervals of inactivity.

In order to make the inquiry required by the law and bring together the information that would be needed in formulating legislative proposals, the Commission employed a number of prominent economists, financial editors, bankers and government officials in the United States and foreign countries to prepare monographs, papers and reports on the actual operations of banks and on their separate functions and mutual relations. Members of the Commission visited the leading coun-

tries of Europe whose economic conditions were most nearly like our own, and appointed representatives to visit other countries for the purpose of holding personal interviews with the officials of leading institutions concerning their banking organization and their arrangements for dealing with reserves, note issues, commercial paper and other banking problems. The Commission also conducted hearings and made inquiries in different parts of the United States and particularly in a dozen or more of the leading commercial centers of the country for the purpose of getting the opinions of people in different localities and occupations on desirable changes in our banking laws. The discussion of currency and banking problems in the meetings of various learned societies and associations of business men and bankers were also utilized by the Commission as a means of securing expert opinions.

PUBLICATIONS OF THE MONETARY COMMISSION

The results of the studies and investigations carried on by people enlisted in the service of the Commission, and of its own interviews, public hearings and inquiries, together with the report and bill submitted to Congress by the Commission at the conclusion of its work, have been issued as public documents in a series of twenty-three volumes under the general title of *Publications of the National Monetary Commission*. The material in these volumes covers about 14,000 octavo pages and about 1,200 quarto pages, the latter containing chiefly statistical matter. Of the total of over 15,000 pages, about two-thirds, or more than 9,000 pages, deals with banking and related problems in foreign countries. Of the whole mass of information brought together in the

publications only a relatively small part is entirely new. Some of the material included is simply a reprint of previous publications, and a large part of the matter dealing with American conditions consists of books, monographs and reports previously published but revised and brought up to date and republished for the uses of the Commission.

Some of these revisions were, however, of vital importance to the completion of the investigation which the commission had undertaken. This was especially true of the two monographs by Dr. David Kinley on "The Independent Treasury of the United States and its Relations to the Banks of the Country" and "The Use of Credit Instruments in Payments in the United States." The study of Treasury operations left no doubt concerning the need of some new and efficient machinery for handling the government's financial business, while the investigation of the use of credit instruments fixed attention on the tremendously important function of the deposit currency as a means of employing bank credit in the transaction of the business of the country.

VALUABLE CONTRIBUTIONS

Among the most notable of the new contributions to the study of American conditions were the "Seasonal Variations in the Relative Demand for Money and Capital in the United States" by Professor E. W. Kemmerer and the "History of Crises under the National Banking System" by Professor O. M. W. Sprague. The volume by Professor Kemmerer is an elaborate statistical study based on a mass of financial data, such as statements of condition of banks, clearing house returns, movements of money, rates of exchange, monetary circulation, bond prices, etc. The study was not con-

fined to the New York money market alone, but included also the markets of Chicago, St. Louis, New Orleans and San Francisco, to the extent that information was available. While Professor Kemmerer's investigation was the most complete of any ever made in this field, it did not result in any modification of accepted theories of seasonal and other periodic market movements but served rather to confirm them.

Professor Sprague's volume of 484 pages on "The History of Crises under the National Banking System" is an important contribution to our financial literature and the most valuable of the original studies made for the Monetary Commission. It is a careful, critical examination of the results of banking policy and management as developed under the National Bank Act in all the periods of crisis from 1873 to 1907. Professor Sprague describes the nature of the problems that presented themselves from time to time and compares the success of the methods that were evolved to meet them. His final judgment is that "it is impossible to escape the depressing conclusion that the banking situation in 1907 was handled less skilfully and boldly than in 1893, and far less so than in 1873. No new elements of weakness were disclosed, but no real effort was made to overcome difficulties which had been met, with partial success at least, on former occasions." The most important lesson to be drawn from Professor Sprague's study is that banking reform would prove most certain and successful if pursued along the line of the means naturally evolved by our bankers for meeting their problems.

Such an inference is in accordance with our best experience. Probably the most successful banking system we have had in this country was the Suffolk system of the New England

states in the period before the Civil War. This was a plan of banking developed by bankers, slightly aided from time to time in their efforts by the law, to insure efficiency and safety in the employment of bank credit on a basis of circulating notes. If bankers since the Civil War had been free to act in accordance with their experience, and had been reasonably supported by the law, there is no reason to suppose that they could not have developed for the whole country equally efficient and successful methods of insuring safety in the use of bank credit based on deposit currency.

INVESTIGATION OF FOREIGN BANKING SYSTEMS

In the investigation of foreign banking and currency conditions, much more attention was given to England, France and Germany because it was believed that business conditions in these countries were more nearly like our own. Of the 9,000 pages in the publications devoted to material relating to foreign countries, over 6,500 deal with conditions in these three countries alone, and of these pages about 4,500 relate exclusively to Germany. It was the opinion of Senator Aldrich, as well as of some other members of the Commission, that the banking system of Germany was of more interest than any other to the people of the United States because the industrial and commercial interests of the German Empire were very largely of the same character as our own. This German material, like that relating to the United States, consists largely of reprints in English translation of books, reports and papers previously published in German. These reprints include the memorial history of "The Reichsbank, 1876-1900," the "German Imperial Banking Laws," the third German edition of Dr. Jacob Riesser's

"The German Great Banks and their Concentration in Connection with the Economic Development of Germany," almost the entire report and proceedings of the "German Bank Inquiry Commission of 1908," a series of articles from the *Frankfurter Zeitung* relating to "The Renewal of the Reichsbank Charter" and a series of "Miscellaneous Articles on German Banking" extracted mainly from the proceedings of the Third German Bankers' Convention. But in spite of the large amount of space given to German material, the publications of the Commission contain no general review of German banking as a whole, an omission which can only be regarded as a defect in the work of the Commission since so much importance was attached to German conditions and experience.

The information relating to English and French conditions is much briefer but also more useful in making a comparative study of American experience. The monographs by Hartley Withers on "The English Banking System" and by R. H. I. Palgrave on the "History of the Separation of the Departments of the Bank of England" are the best of the publications relating to England. Mr. Withers' statement is an illuminating account of the complicated relations of the Bank of England, the joint-stock and private banks, and the accepting houses and discount houses, and the position of all of them in the market.

The most valuable of the publications dealing with French conditions are the "Evolution of Credit and Banks in France from the Founding of the Bank of France to the Present Time" by André Liesse and "The Bank of France in its Relation to National and International Credit."

Some of the best information concerning the operation of the foreign banking systems, and particularly those

of England, France and Germany, is to be found in the reports of the interviews held in the summer of 1908. The replies to questions put to bank officials in these interviews, with respect both to what they said and what they left unsaid, often throw more light on some aspects of the actual working of the foreign systems than anything else published by the Commission. But the information contained in these reports is not so accessible because no attempt was made to analyze and digest it in a systematic manner.

DISCLOSURES AS THE RESULT OF CONTRASTING BANKING SYSTEMS

The things which this extended study of foreign banking conditions emphasizes in contrast with American conditions are:

1. The existence in each country of a central institution, more or less closely related to the government of the country, which serves not only as a government bank but also as a banker's bank and as a bank for the public.

2. The centralization and control of note issue by means of these institutions.

3. The high degree of centralization in general administration and management of reserves in all countries.

The publication of this mass of material relating to foreign banking was one of the most useful services that the National Monetary Commission performed. It made available for our political leaders, banking and financial journalists and the general public, a vast fund of information on banking organization and operation in foreign countries which was formerly known only to expert students of the subject.

It is not easy to estimate the influence which the studies carried on under the direction of the National

Monetary Commission had in shaping its conclusions concerning the defects of our banking system and in devising the necessary measures of reform which were finally submitted to Congress in the form of a report and a bill at the beginning of 1912, three and one-half years after the initiation of the Commission's work. A large portion of the publications of the Commission were issued in 1910 before anything definite was known of the plan of reform to be recommended. In January, 1911, Senator Aldrich personally gave out what he described as a "suggested plan of monetary legislation."

In substance this plan was an elaborate central bank scheme to be owned and controlled by the banks of the country with due representation of the government on its official board. This suggested plan does not seem to have been the product of any deliberations of the National Monetary Commission itself, based on the results of the scientific inquiry it had been conducting. No formal meetings of the Commission as an official body were held before the fall of 1911 when a resolution calling for a report from the National Monetary Commission on January 8, following, was introduced in Congress by Senator Cummins of Iowa and adopted.

Although due allowance must be made for the influence of American opinion and European experience, the suggested plan was probably the work of Senator Aldrich, aided by the advice of a few experienced men, among whom Mr. Paul M. Warburg, the New York banker, is commonly reputed to have played an influential part. The proposals made in this plan, which soon came to be spoken of as the Aldrich Plan, were fully discussed for several months in meetings of bankers and business men and in economic,

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banking and financial periodicals and newspapers. In October, 1911, the plan was revised and redrafted in the form of a bill and included in the report submitted to Congress on January 8, 1912, as the recommendation of the National Monetary Commission.

DEFECTS IN THE UNITED STATES BANKING SYSTEM

The defects in our banking system which are elaborately summarized in the report of the Commission may, for the purposes of this paper, be briefly recapitulated as follows:

1. The existing banking system provides no effective means for coöperation by banks in crises.

2. It admits of no concentration of the banking reserves of the country for use in times of stringency or unusual strain.

3. The banknote circulation fails to respond, through automatic expansion and contraction, to changing needs of business.

4. The existing system provides no effective agency for facilitating exchanges and transfers of funds between different localities and sections of the country.

5. It affords no means of properly regulating the foreign exchanges and controlling the international flow of gold.

6. Interior communities do not have the benefits of ready access to the central money markets.

7. Existing arrangements lead to the congestion of banking resources in large financial centers stimulating speculation when they are accumulating and unsettling the market when they are withdrawn.

8. The accumulation of government funds in other institutions than the banks results in constant disturbance of bank reserves and further unsettling of the market.

To rectify these evils, the bill recommended by the Commission proposed to incorporate the National Reserve Association of the United States, with a capital of \$100,000,000 to be subscribed voluntarily by national banks, and also by state banks and trust companies under certain conditions. Subscribing banks in contiguous territory were to be grouped in local associations, while these local associations were to be combined into fifteen district associations covering the entire territory of the United States and serving as branches of the National Association. The central association thus organized was to have authority:

1. To take over the note issuing function of the national banks, basing such note issues ultimately on legal money and first class commercial paper instead of bonds, and further, to have the privilege of issuing additional notes, having the same security, on payment of a graduated tax thereon.

2. To rediscount for national banks first class commercial paper maturing in short periods of time.

3. To transfer funds for national banks between the central association and the branches, and between the branches.

4. To receive and hold deposits of subscribing banks and the government, but no private deposits.

To insure safety in reserve management the National Association was required to hold a cash reserve equal to fifty per cent of its demand liabilities. It was also provided that the association should serve as a depository for public funds and as the fiscal agent of the Federal government. No changes were made in the reserve requirements of national banks except that they could count the notes of the central association as well as their deposits with it as reserves.

Probably no economic measure ever

brought before the Congress of the United States received at the hands of political leaders, students of banking and currency problems, and the general public, such comprehensive study and thorough discussion as this one, but in spite of the great amount of time and labor spent on it and the heavy expense incurred, it had no direct consequences whatever in the way of constructive legislation.

POLITICAL CHANGE AND THE ALDRICH PLAN

By the beginning of 1912 the political situation had completely changed and the recommendations of the Monetary Commission were never brought up in Congress for consideration. Many of the men who had been members of the Commission when it was organized had either retired from public life or had been retired in the elections of 1910. During the discussion of Senator Aldrich's suggested plan, which preceded the formal submission of the Commission's findings and recommendations, much opposition of a general character developed against it, not apparently because of any lack of confidence in the soundness of the measures proposed, but because of a general distrust of the men who were primarily responsible for it, particularly of Senator Aldrich who, as chairman, had controlled and directed all the activities of the Commission. Whether or not it was warranted, there was a widespread belief in the country that Senator Aldrich was too close to some of the great business interests whose purposes, it was believed, were not always in harmony with the highest public welfare. In view of this attitude of the public it was not unnatural that the new party leaders in Congress should decline to look for guidance in the work and findings of the National Monetary Commission.

THE RESERVE ACT AND THE MONETARY COMMISSION'S WORK

The extent to which the framers of the Federal Reserve Act drew upon the work of the National Monetary Commission has been a matter of some interest. At the time the Act was under discussion many people regarded it as nothing but a copy in large part of the Aldrich Plan, but there were no substantial grounds for such a claim, although the two projects were similar in many of their fundamental provisions. In describing the legislative history of the Federal Reserve Act some months after its passage, Dr. H. Parker Willis, who was the expert of the House Banking Currency Committee while the bill was being drafted, makes the following statement concerning its origin:¹

The Federal Reserve Act is the product of a lengthy course of development and has grown gradually out of the discussion and analysis of the past twenty years. It is not drawn, even largely, from any single source, but is the product of comparisons, selection and refinement upon the various materials, ideas and data, rendered available throughout a long course of study and agitation. Many bills embodying the same general line of thought that now finds expression in the new act have been offered in Congress.

All of this might be said also, with equal truth, of the Aldrich Plan itself. Certain it is, that the fundamental principles underlying the essential provisions of both measures were well established in European and American banking theory.

The investigations of the National Monetary Commission were limited to the field of banking and bank currency although the scope of the instructions given the Commission by the law would have permitted a wider range

¹ *American Economic Review*, Vol. IV, p. 13.

of activities. Many students thought at the time that it was a good opportunity to amend some of the other serious defects in our monetary system. Since the beginning of the Civil War, our money had become the most heterogeneous and complex of any in use by the great nations of the world. Besides the gold basis, it included several different types of fiduciary money in large amounts with complicated machinery for maintaining them at a parity with the standard. A general reform of our banking system and bank currency was regarded by many as furnishing the best opportunity to secure a final solution of the greenback and silver questions, but the National Monetary Commission avoided these issues as did also the framers of the Federal Reserve Act.

CURRENCY COMPLEXITIES PERSIST

Today, it is a serious question whether or not the addition of the Federal Reserve notes to our monetary circulation, without any material change in the amount of national bank notes or the other forms of fiduciary money in use, has not increased the complexity and difficulties of our monetary system without improving its efficiency as an instrument of economic welfare.

Between 1913 and 1920 the United States passed through a period of inflation that exceeded in its extent anything in our previous history. Some of this was due to our large acquisitions of new gold, but far more of it was due to the release of gold from bank reserves, made possible by the issue of Federal Reserve notes when the reserve requirements under the Federal Reserve Act were changed to their present form by the amendment of June, 1917. After this change in the law, expressions of gratification over the great economy of money that

would be effected thereby were very common. But it is a strange economy of money that results in inflation! When the history of some of the provisions of the Federal Reserve Act and its amendments comes to be written, the judgment will be that they were inflationist legislation and that their enactment added still others to a long list of monetary errors into which the country has fallen.

SOME UNLEARNED LESSONS

While the National Monetary Commission devoted a large amount of attention to the organization and working of the foreign banking systems, it neglected some aspects of those systems, a better understanding of which might have led to a clearer conception of the true defects of our own systems and of the best means of correcting them. Perhaps the most significant feature of the great foreign systems, according to the studies of the Commission, is the high degree of centralization that exists in control and management. But while the influence of the great central institutions in securing this centralization is strongly emphasized, no emphasis is laid on the effect of extreme concentration in foreign banking due to the widely extended system of branches. A relatively few great companies or corporations, including the central banks, control the business of banking in England, France and Germany. This control is exercised from central offices, usually located in the financial center of the country. This is an important, distinguishing feature of European banking as compared with our own.

In the United States much praise has been conferred on the Canadian banking system, but the chief difference between it and our own lies in the fact that Canada has relatively few

banking corporations with many branches widely scattered. Between 1900 and 1912 about 15,000 new banks were organized in the United States. This meant 15,000 new boards of directors and probably as many new conceptions of what constitutes sound bank policy and management. The existence of our vast number of independent institutions needs only to be mentioned to make it clear that no scheme of coöperation among banks yet devised in this country will give the degree of centralization in control and management that has been attained under the foreign branch systems.

SUCCESSFUL BANKING PRIMARILY A QUESTION OF ADMINISTRATION

Another aspect of this subject is also of vital importance. If there is any one lesson that the study of European experience enforces, it is that successful banking is more a question of administration than of law. As Hartley Withers says, "Good banking is produced, not by good laws, but by good bankers." An important consequence of the extreme concentration in foreign banking is that it brings the best banking talent into positions of responsibility and control. No doubt our best bankers are the equals of the best European bankers but our type of banking does not bring them into positions where they can exercise complete control over the banking business of the country.

The apparent control of the flow of credit in the leading European countries through the manipulation of the discount rates of the central banks, is another feature of foreign banking which has always been in sharp contrast with our own practice and which we have tried to imitate in our banking reform. The studies of the Monetary Commission furnish no satisfactory

explanation of the true nature of this control and how it is exercised. The impression is often gained that the bank rate determines the market rate, but it would probably be just as true to say that the market rate determines the bank rate. When Lord Avebury, partner of Robarts, Lubbock and Company, was asked concerning the extent to which the bank rate governed their loan and discount transactions, he replied, "The bank rate generally is an expression of the market rate." The truth is that the market rate is a competitive rate in the determination of which the competition, actual or potential, of the Bank of England with the other banks is always a factor.

INFLUENCE OF BANKING COMPETITION

The influence of competition is more clearly seen in the operation of the French system than in that of England. In replying to a direct question concerning the competition of the Bank of France with the other banks, M. Pallain, the governor of the Bank of France, said, "On certain points there may be competition, and it is on account of this salutary competition that wherever a branch of the Bank has been established the rate of discount has been perceptibly reduced, in the interest of commerce."

The fact is that the control of the flow of credit in these countries is a competitive one. The central banks are not only bankers' banks and government banks; they are also public banks and compete with the other great centralized institutions for a share of the banking business of the country. Their relations to their governments, their prestige, and the fact that their managers think not only of profits but of the national economic welfare, places them in a strong competitive position and enables them to exercise

an influence much out of proportion to the amount of business they do.

There has been much discussion recently of the discount policy of the Federal Reserve Board and the control of the flow of credit under the Federal Reserve System. The charges of banks to their customers have not been materially affected by the manipulation of the rediscount rates. The

explanation is that the Federal Reserve Banks are banks for banks and banks for government and not, at the same time, public banks in the true sense of the word. They cannot exert the competitive influence against the other banks that the foreign central banks exert. They are not in fact in the market and cannot, in consequence, share in market control.

The National Citizens' League A Movement for a Sound Banking System

BY HARRY A. WHEELER

Vice-President, Union Trust Company of Chicago

AS a result of the panic of 1907 the business men of the country became greatly concerned for the commercial safety of the future. At the annual meeting of the National Board of Trade, held in Washington on January 25, 26 and 27, 1910, the subject of monetary reform was discussed and the following resolutions were unanimously adopted:

Whereas, We assume that a plan for the revision of our currency system will be formulated after the National Monetary Commission has made its final report; and

Whereas, A revision of our currency system upon a permanently sound and scientific basis is of vital importance to all interests and should be accomplished as soon as practicable;

Resolved, That the National Board of Trade favors the adoption of a currency system which will be based upon the following fundamental principles and insure the following results:

First—Be absolutely fair to all interests and to all localities;

Second—Insure at all times an adequate supply of properly safeguarded currency;

Third—The volume of said currency to automatically expand and contract in response to the normal demands of the manufacturing, commercial, agricultural,

and other legitimate interests of the country;

Fourth—Said system to be absolutely free from domination or control by political or any other favored interests;

Resolved, That the National Board of Trade calls upon all its constituent bodies to carefully study the fundamental principles of banking and currency, in order to intelligently aid the enactment of such legislation as will best conserve the interests of the entire country.

The National Board of Trade determined to devote one day in connection with its annual meeting in 1911 to a Business Men's Monetary Conference. January 18 was set aside as "Monetary Day." Two hundred selected commercial bodies were to appoint special committees to make a careful study of the banking question. Each organization was requested to submit its conclusions and recommendations to the National Board of Trade at least one month before the meeting and to send a representative to the meeting, to be held in Washington beginning January 17, 1911. The invitation met with a hearty response on the part of the commercial organizations throughout the country and a large number

of delegates participated in the conference.

The Business Men's Monetary Conference, under the chairmanship of C. Stuart Patterson of Philadelphia, adopted resolutions which ultimately led to the creation of the National Citizens' League. By these resolutions, the chairman of the Conference was authorized to appoint a committee of seven to organize a "Business Men's Monetary Reform League," with headquarters in Chicago and branches in the principal centers of the country, whose object should be to conduct a comprehensive campaign of education in behalf of some kind of national reserve association. It was agreed that the delegates to the Conference should endeavor to enlist the active aid of the commercial bodies they represented.

Acting on the authority of these resolutions, a committee was appointed composed of: C. Stuart Patterson, of Philadelphia, James J. Storrow, of Boston, Paul M. Warburg, of New York, Irving T. Bush, of New York, George D. Markham, of St. Louis, Fred W. Upham, of Chicago and Harry A. Wheeler, of Chicago. This committee was called into conference in Chicago on April 24, 1911. The committee was unanimous in its opinion that the responsibility of creating a national organization should be left with the business men of Chicago, who should conduct a nation-wide campaign from their city.

On April 27, 1911, a conference was called by the committee at which were present about fifty of Chicago's foremost business men, representing both the commercial and the financial field. This conference, after careful deliberation, agreed to accept as a duty and privilege the responsibility of conducting the campaign from Chicago as a center.

The new movement was initiated by the Chicago Association of Commerce. A joint meeting of the Board of Directors and the Executive Committee of the Association was held on May 29, and took action by passing the following resolution:

Resolved, That the Chicago Association of Commerce recognizing the distressing effects of panics on trade, capital, and labor, the consequent need of a sound banking system in the interest of all the people in the country, and the suggestion made for the creation of a National Reserve Association, hereby requests John G. Shedd, Marvin Hughitt, Graham Taylor, Harry A. Wheeler, B. E. Sunny, Cyrus H. McCormick, Julius Rosenwald, Charles H. Wacker, Frederic A. Delano, John Barton Payne, A. C. Bartlett, A. A. Sprague, J. Laurence Laughlin, John V. Farwell, Clyde M. Carr, Fred W. Upham, F. H. Armstrong, and Joseph Basch to form a National Citizens' League, the object of which shall be to give organized expression to the growing public sentiment in favor of, and to aid in, securing legislation necessary to insure an improved banking system for the United States of America.

Acting under this authority, "The National Citizens' League for the Promotion of a Sound Banking System" was organized and a certificate of incorporation was granted by the Secretary of State under date of June 6, 1911. Article 2 of the certificate of incorporation is as follows: "The object for which it is formed is to give organized expression to the growing public sentiment in favor of, and to carry on a campaign of education for an improved banking system for the United States of America." In organization and in operation the Citizens' League was at once made national.

The Chicago Association of Commerce only accepted a responsibility imposed upon it by the other commercial bodies of the nation to take the initiative in the conduct of a campaign

to which their support had been pledged. The only part taken by the Chicago Association, as such, was to launch the new League. This done, it surrendered all control into the hands of the Board of Directors of the League.

In April, 1913, pursuant to a call from the President of the United States and his Secretary of Commerce, the Chamber of Commerce of the United States was organized. It became the successor to the National Board of Trade and, recognizing its relation to the subject of monetary reform, established a close contact with the Citizens' League.

The first Annual Meeting of the Chamber of Commerce of the United States, in January, 1913, dealt with the problem as of first importance to the new incoming administration and instructed its Board of Directors to present the matter to the President-elect. In February, 1913, the directors carried into effect the mandate of the Annual Meeting by the following resolution:

The Chamber of Commerce of the United States of America believes the present moment to be one of grave import to banking and currency legislation. The country has been profoundly stirred by the discussions of the past two years. The defects of our present system are generally understood to constitute a menace, both to our domestic and to our international trade. The business men of the country should not again be exposed to the rigors of another such stringency as followed the large crop of 1912. The expected changes in our tariffs and the financing of another crop in 1913 make imperative immediate action by Congress. Moreover, it is apparent that the presentation of a sound measure to Congress would crystallize behind it the support of the business and banking interests of the country.

Therefore be it Resolved, That the Board of Directors of the Chamber of Commerce

of the United States of America, acting under instructions unanimously voted by the convention of January twenty-first to twenty-third, 1913, urge upon the Banking and Currency Committee of the House of Representatives the early submission to Congress in extra session of a measure which will overcome the difficulties from which we are suffering; upon the Senate, its prompt consideration of such measure at the extra session; and upon President-elect Wilson, his cordial and earnest support in favor of early and complete legislation.

And be it further Resolved, That a copy of this memorial be sent to President-elect Wilson and to Honorable Carter Glass, of the Banking and Currency Committee of the House of Representatives.

A standing Committee on Currency and Banking was also appointed to press upon the Administration the necessity for early action, to follow legislative development, and to prepare a report for subsequent submission to the membership through referendum, as provided in the rules.

This committee was composed of Wallace D. Simmons, St. Louis, Chairman, John W. Craddock, Lynchburg, Virginia, Irving T. Bush, New York City, Edmund D. Fisher, New York City, Edward D. Page, Oakland, New Jersey, Joseph French Johnson, New York City, J. Laurence Laughlin, Chicago, George A. Mahan, Hannibal, Missouri, William A. Scott, Madison, Wisconsin, William George Bruce, Milwaukee, Wisconsin, J. M. Miller, Jr., Richmond, Virginia, Allen Cucullu, Lynchburg, Virginia, John V. Farwell, Chicago, Edmund D. Hulbert, Chicago. It completed its preliminary work in August, 1913, and sent to referendum a report on pending legislation with recommendations for amendment in keeping with the principles put forward by the National Citizens' League.

The League, having completed the

work for which it was organized, formally requested the Chamber of Commerce of the United States to pursue the subject through its legis-

lative stages and disbanded; the Chamber, through its Committee, followed the matter closely until its "Federal Reserve Act" became a law.

The Educational Campaign for Banking Reform

By A. D. WELTON

Continental and Commercial National Bank, Chicago

ORGANIZING the National Citizens League in 1911 was no less a task than organizing the country. It was the final step, outside of political declaration and legislative action, to bring about a demand for the reform of the nation's banking laws. The havoc of the last panic had been wrought. Emergency legislation in the form of the Aldrich-Vreeland Act was on the Statute Books. The Monetary Commission had junketed, experted and ruminated and Senator Aldrich was working on a reform proposal.

From these statements it might be gathered that public sentiment had at least begun to crystallize; that the subject of all this discussion and effort was nearing the point of issue and action. Nothing was farther from the truth. There was no popular comprehension of what it was all about. Panic meant only a lack of currency. Newspaper writers were miles at sea. Politicians were floundering in darkness. Practical bankers were looking to their few leaders for guidance. The economists, however clear their theories, were blinded by traditions and precedents of long standing. There was a dominant desire for a change but any suggestion of a practical plan raised a clamor of hostility to centralization, the great political bugaboo.

The persistence of political rancor found a new demonstration every

time a central bank or the centralization of banking power was mentioned. The traditions of the Democratic party stood as strongly in this respect as when Andrew Jackson and Nicholas Biddle fought over the Second Bank of the United States eighty years before. The mention of asset currency roused the smoldering fires of greenbackism and free silverism. It was plain that many people cherished the belief that issuing currency was a sovereign power of the government, and Mr. Bryan was present to insist that such was the case.

Every time the question of currency had come up for popular consideration in the three preceding decades, the believers in soundness as wrought by a single gold standard had been on the defensive. They merely prevented their enemy from doing something vicious. The one constructive bit of legislation was the Gold Standard Act of 1898. That followed the affair of 1896 as the Aldrich-Vreeland Act and the appointment of the Monetary Commission followed the panic of 1907.

EDUCATION A FORMIDABLE UNDERTAKING

All the studies of the Commission pointed to the necessity of a plan for banking coöperation, for mobilizing reserves, for making both currency and credit elastic, and for creating a discount market. It was a formidable

enough undertaking to make any considerable portion of the people understand these things. It was a much larger one to make a considerable portion of them unlearn the financial follies they had been taught.

For this undertaking the teachers were not many. It was necessary to train teachers. The bankers were of little assistance in this way. Very few of them understood the science of banking, however versed they might be in the art of it; fewer still were competent to teach the economics of money. Moreover, the bankers were under suspicion. Had they not defeated Mr. Bryan in 1896 and subsequently and also subsequently? Mr. Bryan had frequently testified to that fact.

Finally, Senator Nelson W. Aldrich was Chairman of the Monetary Commission. For years he had been in a conspicuous position of leadership. His name was synonymous with everything abhorrent to progressive thought. In the public mind he was first friend of the trusts, advocate of special privilege, the defender of Wall Street and ally of the money devil. Politically, it made no difference that the Senator from Rhode Island had worked hard for years to equip himself for the task now on hand. It was of no moment that his great ambition was to give the United States a sound banking system or that his devotion was complete and unselfish. He was a popular target for editorial anathemas and anything emanating from him must be bad because of its origin.

In June, 1911, approval of a plan for a new banking system meant approval of Aldrich. The National Citizens' League came into existence under a handicap.

The "Money Trust" was an active monster of that day also. It was an indefinite something which could be

charged with all kinds of crimes and would plead to no indictment. There were two "money trusts" in fact—one that the politicians created out of their vivid imaginations for their own private uses, and another, defined as a "community of interest" among powerful bankers, created by a defective and inadequate banking system. The imagined "Money Trust," linked with a plan to reform the banking and monetary system, became much more imposing as a political spectre. Such a "Money Trust" must necessarily have impious designs, and what more natural than it should seek to have the banking laws remodeled to fit its own purposes!

Here was another barrier the League had to take.

POLITICAL AND PARTISAN COMPLEXITIES

Another circumstance lets in light on the difficulties that lay before this economic missionary. Republicans had passed the Aldrich-Vreeland law and planned the work of the Monetary Commission. Republicans had planned to drive through a new banking act. But a new Congress had been elected with a Democratic House. There were even predictions that the next president would be a Democrat. Wisdom forbade that the League have even a remote appearance of partisanship. As a matter of fact the manner of its organization made partisanship impossible but it was frequently charged in the first months that this was "the million dollar organization formed to put over the Aldrich banking scheme."

It is unnecessary to go farther into the conditions of the day to show that the League had a large task and that it would have to justify itself by performance if it was to survive and succeed.

EARLY INVENTORY OF THE LEAGUE'S WORK

It succeeded so well that in March, 1912, it took account of itself as follows:¹

The campaign for banking reform has been carried into 44 states. The National Citizens' League has now 46 organizations—one in each of 43 states, two in California, and the German section with headquarters in New York City. The extension of this organization work reflects the progress of the sentiment for an improved monetary and credit system.

The League came into corporate existence in June, 1911. It is a non-partisan organization. It has no affiliations with any class or any interest. Among the 1,500 officers of its branches and its increasing thousands of members, men engaged in manufacturing, merchandising and agricultural business are in the great majority. The business element is preponderant. The League and its campaign have been indorsed by resolutions adopted by 68 boards of trade and associations of commerce and similar organizations.

There is reason for this preponderance of business men. The League had its origin at a meeting of the National Board of Trade in Washington. The business organizations represented there felt that they should have a voice in the question of improving anything of such vital interest to them as the monetary system.

C. Stuart Patterson, of Philadelphia, was made chairman of a committee appointed at that meeting which later conferred with the Chicago Business Men's Monetary Reform League.

The Chicago Association of Commerce volunteered to launch the new organization and requested the present Chicago Executive Committee to undertake the work. Thus the National Citizens' League came into existence.

The astonishing feature of the progress of the League is that it has met practically no opposition. This is undoubtedly due to the fact that its work has been wholly educative. It has indorsed no

particular scheme of reform. It deals in concrete plans only by way of illustrating the great general problems of efficiency of bank reserves, a discount market, independent banking, an elastic currency and credit system and adequate banking facilities. Its belief is that when the people come to have an understanding of the fundamental requisites of an efficient monetary and banking system the legislation will take care of itself. With the fundamentals understood, as they will be, the working out of the details may be left to Congress. How the application is made, or what the system is called are matters of no importance. Who frames the measure finally adopted or after whom it is named, are equally inconsequential.

RECRUITING THE FORCE OF EDUCATORS

It is not surprising that an organization so elaborately born should have a name as elaborate. Almost the first error was in this selection. The National Citizens' League for the Promotion of a Sound Banking System was the cumbersome heritage of the men who later assumed the work of giving the scheme publicity. As the economists—the professors of political economy—were about the only ones who could write on questions of banking, they were drafted early. The work of creating organizations in the various states was speedily got under way. Pamphlets on pertinent subjects were produced and printed. Speakers—mostly economists—were recruited. A declaration of the principles the League indorsed was made. Large sums of money were spent. Later, and not much later, the difficulty that always confronts such organizations, was encountered. It was necessary to expend time and energy in raising funds to support the work.

The publicity work was conventionally organized. Pamphlets, whose distribution called for mailing lists,

¹ *Banking Reform Magazine*, March 16, 1912.

were a matter of course. Membership in the League at \$1 a year carried with it all published matter and an obligation to spread the gospel.

The state and local organizations, in some cases self-supporting but always with a paid secretary, supplied names for the mailing lists and often did the distributing. The entire list of League officers and directors would make a business blue book. Local secretaries were chosen, so far as possible, because of some familiarity with publicity methods. There was no rule. In some states publicity was the only medium used. In others, dependence was placed on meetings and speakers. In still others, local business organizations were enlisted. This was all ordered by expediency or the desires or peculiarities of the local officials.

The undertaking of the central office in Chicago was to guide the thought of every member of the League, every officer of each state organization. As loosely joined as the organization was, a single policy and harmony of purpose were indispensable.

The marvelous and general lack of familiarity of the general run of bankers and business men with monetary problems was of great assistance. They had to take what was given them because they had practically no other sources of information. The old sources of monetary information were dried up. Previous demands for monetary reform were directed at the currency and the quantity of it. Financial progress in terms of elastic credit and bank reserves was unprecedented and, considered by itself, strikingly logical.

This is not to say that the old "isms" did not outcrop at frequent intervals and in unexpected places. The local secretaries watched carefully for such outbursts and they

were carefully met and countered. Some of these were temporarily serious but usually they were ludicrous. All were treated alike. If the opponent of banking reform or the advocate of something unsound found space for his outpouring in a newspaper, the same newspaper was supplied with other material, often through a local League representative. If the first newspaper refused publicity, the rival paper was tried. If both were recalcitrant a local mailing list was compiled and used.

MONTHLY MAGAZINES THE GREATEST PUBLICITY MEDIUM

The League's monthly publication, *Banking Reform*, was used in most cases. It was the uninvited visitor to every newspaper office in the country. It could be, and frequently was, used to meet some special opposition. When a weekly paper in an obscure county of California assaulted the Monetary Commission, the League, banking reform and everyone interested in it, a special edition of *Banking Reform* was printed and sent to everyone in the county. It was effective.

When a venerable, retired county judge in Texas unlimbered a page of heavy artillery in the county seat paper on the sacred and sovereign right of the government to issue money, the case could not be ignored. The rhetorical flood was broken up, the facts extracted and a reply written and sent to the paper. It was published—two-thirds of a column. The venerable judge countered with another solid page. The reply was short and pointed. The judge was unwittingly doing well for the League. He became interested in the new proposition. He wrote to headquarters for pamphlets. A month later he graciously acknowledged his conver-

sion, sent in a dollar and joined the League. This incident had no repetition. The devotees of greenbacks, free silver and the "sovereign right of the government" were, and are, irreconcilable but they were not troublesome for long. Their attack lacked versatility and mere continuity made it tiresome.

From the viewpoint of real publicity the monthly, *Banking Reform*, was the mainstay of the publicity campaign. It was the messenger to the press. It permitted repetition and reiteration, which were necessary to give editors familiarity with what was to them a new terminology. It was slow and disheartening work for many months. Once the fervor of early political controversy had cooled and political economy was the order, publicity results were scant. In the central office clippings were garnered with care and treasured in the files. One of the first months of effort brought only seven. The next month there were none, which was interpreted to mean that the seven were accidents or incidents of editorial good nature.

A TIME WHEN POLITICS HELPED

Politics again intervened to give a stimulus. The other side of the League's organization was at work. State conventions of the political parties were ahead. The League's text book, *Banking Reform*, came from the press. The book was distributed widely to members, whose number it was instrumental in increasing greatly, and was extensively reviewed. The book stimulated interest in the magazine for which the demand also increased. The clipping agency employed began to send in bulkier packages. These could now be read but they were no longer filed. When the Alabama Democratic convention had declared for "a democratic and non-partisan re-

vision of our antiquated banking laws" and demanded the creation of an "elastic note and credit system," the turn came. The politicians were becoming familiar with the terminology.

In the platforms of state conventions of both parties—and they followed rapidly—there were phrases and terms which bespoke familiarity with the League's literature. Naturally these platform utterances were commented on by newspapers everywhere. The comments were almost universally favorable. The terminology in this field began clearly to indicate familiarity with banking reform.

In June, 1912, came the great national conventions. Both Democrat and Republican platforms had planks on the monetary question. Neither one of them meant anything in particular. The Republicans called attention to the party's historic stand for a sound currency, and the Democrats smashed away at Wall Street and the "Money Trust." The League's publication said that banking reform "is a political question only so far as its solution requires political attention in the highest sense of the term. There is no chance that a Democratic scheme of reform will be better than a Republican scheme because it is offered by Democrats, or that a Republican scheme will be superior because it is offered by Republicans. In banking methods neither party is at an advantage over the other because banking is not a matter related to their differing conceptions of popular government."

Committed to banking reform and not to politics or party, the League's purpose was to keep, so far as possible, the question from assuming a partisan aspect.

With the political phase formally entered, however, the publicity campaign became more difficult in one

aspect and much easier in another. There was no longer difficulty in having matter accepted and printed by all kinds of publications. It was in constant demand. The problem was to hold discussion to the essentials. Clippings now came in huge bundles and were dumped summarily into waste baskets. No one had time to look at them. The venerable judge from Texas might have flashed his message in fire on the sky and no League official would have heeded, for banking reform had passed from the stage of a vague request to a demand for speedy political action. It was no longer a question of a new banking law, but what kind of new law.

ENUNCIATION OF FUNDAMENTAL PRINCIPLES

In September, 1912, the League stated the principles it believed should underlie a banking bill. The statement gave as the reasons for banking reform:

To prevent the recurrence of money panics.

To provide for seasonal and special demands for currency and credit.

To insure more uniform and steady interest rates throughout the country.

To divorce commercial from investment banking.

To strengthen our international credit.

To establish higher standards of banking.

It is remarkable, perhaps, in the light of current discussions that in 1912, *Banking Reform* said:

The National Citizens' League believes that these reforms in our banking and currency system can be best brought about by the formation of a coöperative association of all classes of commercial banks, with restricted powers managed by a board of bankers, Federal officials and other citizens. The Association should not be a money-making institution and all earnings beyond a fixed rate should

go to the national treasury. This association should:

Hold the final banking reserves.

Act as fiscal agent of the government.

Rediscount standardized commercial paper for banks at published rates of discount uniform over the country.

Issue circulating notes secured by gold and commercial paper.

Deal in gold and foreign exchange.

Establish foreign agencies.

It must be remembered that this statement was made two months before Woodrow Wilson was elected president and eight months before Congress began to debate the Glass bill.

The League's principles were carefully drawn very early in the campaign. They took no account of partisanship, except to guard against it, as generally befitted an organization of business men bent on securing an economic reform. The principles were:

1. Coöperation, not dominant centralization, of all banks by an evolution out of our clearing-house experiences.

2. Protection of the credit system of the country from the domination of any group of financial or political interests.

3. Independence of the individual banks, national or state, and uniform treatment in discounts and rates to all banks, large or small.

4. Provisions for making liquid the sound commercial paper of all the banks, either in the form of credits or bank notes redeemable in gold or lawful money. Legalization of acceptances and time bills of exchange in order to create a discount market at home and abroad.

5. Elasticity of currency and credit in times of seasonal demands and stringencies, with full protection against over-expansion.

6. The organization of better banking facilities with other countries to aid in the extension of our foreign trade.

In the beginning, these six principles were the guide in all publicity. Their amplification came when the

final political stage was reached as noted above.

The so-called "Money Trust" investigation was an incident which received only incidental attention. In an educational way it had no significance. What is known as Wall Street never showed hostility to the League; it gave much financial assistance and seemed quite unconcerned over the prospect of decentralized bank reserves.

ATTITUDE OF BANKERS AND OTHER ORGANIZATIONS

Bankers and bankers' organizations were always helpful and friendly. They were never keen for the League's principles and, as a rule, they were collectively and individually more interested in the probable effects of any change in laws on their established method of operation. In this respect they often clashed with the business men whom the League represented but they always admitted the need of change in the banking scheme.

As the campaign progressed other forces came in to give assistance and often to interfere. Usually these organizations made plans. Of plans for a new banking system there was a myriad. They came up from all sides. Everyone seemed to have a plan. The League never had one. In that lay its strength.

In September, 1921, Woodrow Wilson spoke of the need for a new banking law in his address accepting the Democratic nomination for the presidency. Soon after his election, and that of a Democratic House and Senate, it became obvious that banking reform legislation would be a Democratic action. This political shift made it advisable to give unusual attention to the South because seniority would place southern Demo-

crats in the important positions in House, Senate and elsewhere.

The new President's message on banking reform preceded action in Congress. That is another story. During this period of many hearings by the banking and currency committees the publicity was continued as actively as ever. As the League was concerned only with principles, and not with administrative forms, its printed matter gave no heed to the latter except for informative purposes. The magazine had naturally become the dependence of many thousands of persons for such information. Many newspapers looked to it for an interpretation of the news developments. Its influence was wide. Reading of the news and comment on the proceedings in Congress made the extent of this influence clear and certainly the members of Congress were not immune to it.

When the Glass bill had passed the House, it became apparent that the League's work was nearly done. It had undertaken only to lay a foundation for legislative action. It is true its organization work had been carried into practically every congressional district. The gospel of banking reform was carried most effectively to every congressman from his home. But when the Glass bill had become the Glass-Owen bill and the Senate had it under consideration, the League began to wind up its affairs.

CLOSE OF THE CAMPAIGN

In the last issue of *Banking Reform*, October, 1913, it was said:

The League never undertook to participate in the actual work of legislation. Article 2 of the certificate of incorporation reads:

The object for which it is formed is to give organized expression to the growing public sentiment in favor of, and to carry

on a campaign of education for, an improved banking system for the United States of America.

Of the success of the League's campaign there is no doubt. It is evidenced by the fact that for more than two years the question of monetary reform has been growing in the public mind until today it is the question of paramount political as well as economic importance. It has occupied the latter position for many years, but it was not until the League's work was well under way that it was lifted out of classification with the impenetrable mysteries to that of a great, and finally the paramount, public issue. One Congressman reduced the situation to terse form when he said, "No League, no bill."

The League has distributed literally millions of pamphlets. It has been the means of supplying literally millions of columns of matter to newspapers. It has supplied speakers for thousands of meetings. But the indirect results of its efforts have been more momentous. It brought interest in the question of monetary science to an acute stage. It challenged every argument founded on a false conception of monetary economics. It supplied material which made editorial work easier. It translated technicalities into simple language. It stimulated thought and discussion. It freed thousands from the thralldom of half a century of false teaching.

The fact that the Glass bill is not perfectly satisfying is in nowise attributable

to failure on the League's part. It has been stated many times in these columns that the machinery by whose operation the principles enunciated were to be given operation might assume any one of many forms. The Monetary Commission evolved one form, the Glass Committee evolved another. Neither is perfect in anticipated operation. It is doubtful if any machinery will be perfect until made over after practical test. But either plan has obvious merits and forms a basis on which can be built up an operating success.

The Executive Committee of the League feels, therefore, that the work of the organization has been practically completed and success has been achieved. It will retain its corporate entity and maintain its organization intact against possible contingencies until results are written in the statute books. But unless the unexpected happens, the League will rest content that the question of banking reform and its satisfactory solution is in the hands of the national legislature. Over this body it has no control, and seeks none, as it has had none anywhere save what was based on logic and built up on adherence to proved principles of monetary economics.

As a final testimony of the efficiency of the League's campaign, it may be pertinent to record that the terse statement, "No League, no bill," was made by the Honorable Carter Glass.

The Federal Reserve Act in Congress

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MUCH has been vaguely or erroneously written of the early history of the Federal Reserve Act and there is already a widespread misunderstanding regarding it. Some part of this misunderstanding is due to the fact that much of the work on the Act was done in committee or in caucus or in private conference. To review the whole his-

tory of the measure would be a task of lengthy detail. The following article is not intended to enter into any such elaborate review but to set forth in compact form the chief facts, without controversial discussion. What it offers is merely a consecutive outline of the history of the Federal Reserve Act during its formation and subsequent

discussion in Congress. It will afford, however, as definite an historical account as is possible within a very brief space, of the various stages through which this measure passed.

INCEPTION OF MEASURE

The inception of what afterward became the Federal Reserve Act grew out of the action of the Banking and Currency Committee of the House of Representatives in authorizing, during the spring of the year 1912, an investigation into currency and banking conditions. This authorization led to the organization of the Banking and Currency Committee in two parts, or sections—the one entrusted with an inquiry into what was at the time known as the “Money Trust” and the other assigned the duty of studying and recommending legislation designed to promote banking and currency reform. This second subcommittee was organized under the chairmanship of the Honorable Carter Glass, who had been for several years a member of the Banking and Currency Committee, and its first active work was undertaken at about the opening of April, 1912. At that time this subcommittee retained technical assistance, and instructions were given to make a general survey of pending banking and currency legislation, including especially the proposals of the National Monetary Commission which were embodied in what had come to be known as the Aldrich bill.

Such a survey of pending and proposed legislation, both recent and earlier, was completed and placed in the hands of the subcommittee during June of 1912. An informal discussion of the question of what lines should be followed, ensued. As a result of this informal discussion, it was agreed to prepare a tentative bill which should be based essentially upon the past

experience of the banks of the country in organizing clearing house associations. The conclusion was definitely reached that a central bank of issue and deposit was not desirable but that, instead of this, a district type of organization, in which the banks of the country should participate, was to be preferred. It was further agreed that such district organizations ought to be vested with the function of issuing note currency upon what had come to be known as the elastic, or “asset secured” plan. It was further thought that the reserves of the country should clearly be transferred to such organizations and that large functions of examination and oversight of the rank and file of the banks should be provided for.

WORK OF SUBCOMMITTEE

With these very general principles definitely laid down as a basis, a bill was drafted during the summer and early autumn of 1912, and the substance of this bill was informally discussed at meetings of the subcommittee which occurred during November, 1912. At that time agreement was reached that further progress in the development of the proposed bill would not be possible unless the attitude of the incoming administration (the Honorable Woodrow Wilson having been elected President early in November, 1912) could be known. Mr. Glass accordingly addressed a letter to President-elect Wilson informing him generally of what had been done and asking for his views in the matter.

An early reply was received from the President-elect in which he expressed agreement in the thought that a suitable banking measure should be developed at an early date, and a time was set for consultation with representatives of the subcommittee of the Banking and Currency Committee. This date was December 26, 1912, at

which time Mr. Glass visited Princeton where President-elect Wilson was then living.

During the conference on the 26th of December there was laid before Mr. Wilson the substance of the tentative bill already drafted and question was asked as to his opinion regarding the extent to which the bill should go. Particularly was the question raised with him whether the new bill should provide for an emergency or permanent type of banking organization; whether it should provide for local organization or for a central control of some kind; whether reserves should be transferred to the new banking organization and whether new note issues should be provided for. Most of these points had not been considered by the President-elect except in a very general way. He expressed himself, however, as desirous of making the measure a thorough-going, complete banking and currency bill, and was positive in his thought that there should be a central control organization—although he accepted the view already developed in the subcommittee—and that actual banking should be carried on in districts and by local organizations acting more or less independently of one another. He was ready to support the transfer of reserves from existing banks to the new organizations and, in general, granted his support to the idea of complete transformation of the existing banking system.

PUBLIC DISCUSSION OF LEGISLATION

By this time the fact that a bill was seriously under consideration in the subcommittee on legislation had become widely known throughout the country among those who were interested in securing action from Congress. It became necessary to consider the question whether hearings should be given to those who had arguments to

present and views to express and whether it was or was not wise to allow the contents of the proposed bill to become known. On both these points a definite policy was developed as follows:

1. The question of holding hearings had been discussed with President-elect Wilson at Princeton at the meeting already referred to, and he had favored the holding of hearings. It was now determined to make the hearings very inclusive and to send out letters to representatives of labor, to manufacturers' associations, to bankers, to economists and to business men.

2. It was further determined to make public no draft of the proposed bill but to mature it slowly and carefully, especially in view of the fact that action on it could not be expected until after the incoming of the new administration on March 4, 1913. It was, however, determined to make known to persons who had a legitimate interest in the pending measure the principal lines of thought on which the committee was working. Statements on this subject were made from time to time to a variety of inquirers, some of them bankers, some, business men or representatives of their organizations, some, legislators. As a result there was a crop of bills—some published, others never printed but filed with the committee—whose authors sought to put down in writing what they believed to be a plan similar to that favored by the subcommittee and hence presumably likely to become the official plan of the administration.

There was thus a large crop of so-called "original bank bills" in Congress. The Aldrich bill was remodeled by advocates for possible use, free of many objectionable features, and was issued as a revised plan by western students of banking. Other plans were developed in the same way and in

undry cases the authors of such plans continued to take an interest in the matter after the Federal Reserve Act became public and as it passed from stage to stage, eventually correcting them and bringing them up to date as the Reserve Act itself was perfected in the course of its passage through the different legislative processes. Thus there was at all times during the year 1913 a considerable array of measures whose general thought was the same that had already been developed by the Subcommittee on Banking and Currency, although until such time as the Federal Reserve Act itself became public the terms of the various bills were, of course, widely different both from one another and from those of the Act itself.

During the months of January and February, 1913, the Banking and Currency subcommittee held many hearings upon the plan already laid out and an entirely new redraft of the Federal Reserve Act was made. This redraft had been practically completed at the close of the hearings in February. It differed from the original act chiefly in detail, embodying in one consistent statute the various elements of the plan which had been submitted to President-elect Wilson in the preceding December. It included provision for the transfer of reserves and the issue of notes, for the refunding of government bonds as well as a provision for government supervision and control of the Reserve Banks, although such supervision and control was shared between the government itself and the bankers of the country. This bill also included a provision for the guaranteeing of bank deposits, insofar as the assets of the member banks would permit, and it also contained an elaborate plan for the election of directors in Reserve Banks with the aid of commercial bodies.

After the close of the hearings another redraft was undertaken and was

completed about the beginning of March, 1913. This third main draft contained principally improvements in language and in technique but discarded the plan of guaranteeing bank liabilities and also greatly simplified the method of electing directors.

With the preparation of this plan and the expiration of the old Congress on March 4, the work of the subcommittee was completed and the final draft was once more submitted to President-elect Wilson at Trenton, N. J., where he was visited by Mr. Glass, and the finished work submitted to him. The President-elect again gave to the bill in its revised form a general preliminary approval.

WORK OF THE SECRETARY OF THE TREASURY

Little work was done on the Federal Reserve Act during the month of March, 1913, but at the beginning of April, President Wilson entrusted to Secretary of the Treasury McAdoo the duty of reviewing the measure for the purpose of reporting to him on the subject. The measure was canvassed section by section by the Secretary of the Treasury and a variety of minor changes were made in it. These changes related principally to details of language. Two important changes were, however, introduced during this process. The first was the acceptance of the idea that the notes to be issued by the new banks should in some way be passed upon or approved or guaranteed by the government, while modifications in the plan for the refunding of government bonds were also introduced. It was the thought of Secretary McAdoo that the original funding provision had been unduly unfavorable to the government.

Many of the changes in language proposed in the first instance by representatives of the Treasury were after-

ward cancelled and the original language restored when further study of the draft had convinced the Treasury representatives that the changes which they were at first inclined to introduce had not been well warranted.

One further change of great importance was introduced during this period of the bill's history, although not at the instance of the Secretary of the Treasury. This was the provision calling for par clearance of member bank obligations. There had been a doubt in the minds of the subcommittee whether the introduction of this provision, in addition to the other extensive elements of the measure, would be desirable or not, and it was eventually determined to present the matter to Secretary of the Treasury McAdoo in order to get his thought on the subject.

The "Money Trust" section of the Banking and Currency Committee had in the meantime carried on a lengthy "probe" into banking conditions in New York and had reported that, in no small measure, unsatisfactory conditions there were due to faulty clearing house organization. It had, therefore, recommended certain legislation designed to control clearing houses. Secretary McAdoo was of the opinion that some provision relating to clearing and intended to give the clearance power to Federal Reserve Banks would be desirable as showing that due attention had been paid to the work of the "Money Trust" subcommittee. He accordingly assented in general terms to the plan which was placed before him and which was therefore incorporated into the bill.

ATTEMPT TO SUBSTITUTE AN ADMINISTRATION BILL.

Careful study of the Federal Reserve Act as thus drafted, however, led Secretary McAdoo to doubt the wis-

dom of the measure, and he, therefore, proposed and brought to the attention of representative bankers a plan of his own under the terms of which the Treasury would have gone, more or less extensively, into a banking business, with the various subtreasuries as branches. The appearance of this plan, fathered by the Secretary of the Treasury, naturally tended to throw grave doubts upon the prospects of the Federal Reserve Act. About the end of May the whole situation was forcefully brought once more before the attention of the President for his decision.

Meantime a separate and independent bill had been developed by Senator Robert L. Owen of Oklahoma, who had become Chairman of the Banking and Currency Committee of the Senate. President Wilson thus had before him the McAdoo plan, Senator Owen's tentative plan and the draft of the Federal Reserve Act—as well as, of course, a multitude of other bills, drafts and suggestions which had been filed with him by many citizens. After very considerable attention the President determined to hold to his original decision in favor of the Federal Reserve Act and accordingly announced his determination to discard all of the other suggestions which were then before him. In so doing, however, he found it necessary to consult with the so-called Bryan element in the Cabinet which had already been generally advised of the intended scope of the Federal Reserve Act.

As a result of this consultation two further definite changes were made in the bill: the notes to be issued by the several banks were now definitely made liabilities of the United States, while it was determined that the Federal Reserve Board should be exclusively composed of government appointees to be named by the President and confirmed by the Senate. These changes

having been agreed upon, the bill was introduced into Congress in its existing form and thus finally worked out.

Shortly afterward a new House banking and currency committee was appointed with Mr. Glass as chairman. The Glass bill—the completed draft of the Federal Reserve Act—was promptly referred to the Banking and Currency Committee as thus organized and the actual work upon the measure was begun. This work was vigorously undertaken toward the end of June, 1913.

CHARACTER OF MEASURE

It will be observed that the first innovation in the terms of the original measure had come at the instance of Secretary Bryan during late May, 1913. It is interesting, therefore, to know just what the plan was which had been completed for introduction into Congress. Space unfortunately forbids a detailed description. At that time, however, there was prepared for the use, and at the request, of the President, a digest stating the chief content and purpose of the bill. This digest, heretofore never published, is an authentic description of the conclusions tentatively reached up to that time and shows fairly clearly the nature of the original measure. It is accordingly subjoined verbatim:

MEMORANDUM ON SCOPE AND EFFECT OF H. R.—, TO REORGANIZE THE PRESENT BANKING AND CURRENCY SYSTEM.

In H. R. — prepared for introduction by Representative Glass of Virginia it is intended to furnish a comprehensive measure for the attainment of four objects:

(1) Provision of a place for rediscounting commercial paper of specified types.

(2) Provision of a basis for elastic note issues properly safeguarded.

(3) Refunding of outstanding 2 per cent bonds so as not to inflict loss upon present holders.

(4) Provision of machinery for doing foreign banking business.

In order to accomplish these purposes fully it is necessary to (a) repeal certain portions of existing law; (b) rectify various conditions in the present national banking system which are in some cases only indirectly connected with the objects sought; (c) furnish a new class of institutions for the performance of some functions which cannot well be entrusted to existing banks, or at all events can better be performed by others and (d) alter the present reserve system to a very material degree.

The scope of the bill can best be understood by an analytical review of its contents, with reference to sections and paragraphs. This is herewith subjoined.

BASIS OF PRESENT SITUATION

The present banking situation in the United States rests upon the National Bank Act proper as slightly modified from time to time and upon the so-called Aldrich-Vreeland Act (Act of May 30, 1908). Of these acts the latter is completely repealed (Section 1) on the ground that it has never become operative, probably will not become operative except under extreme stress, and was never satisfactory. The National Bank Act itself is modified in numerous essential particulars which will be pointed out from time to time in this memorandum. In a separate measure a general revision of the administrative provisions of the National Bank Act is also provided.

NEW CLASS OF BANKS

Fundamental to the idea of the bill is the creation of a new class of banks (Section 2), to be known as National Reserve Banks. The chief points about these banks are as follows:

(1) Number to be twenty with possible increase later as provided. (Section 2.)

(2) Ownership to be in the hands of the national banks of the twenty districts in which the banks are situated. (Section 2.)

(3) Capitalization to be 20 per cent of the capital of the stockholding banks, one half paid in and one half subject to call. (Section 2.)

(4) Business to be as follows:

(a) Rediscounting of paper presented by

stockholding banks and by other banks under specified conditions, provided such paper grows out of actual agricultural, commercial or industrial transactions and does not run more than a specified number of days. (Section 14.)

(b) Buying and selling government securities, gold and silver bullion and foreign coin, foreign exchange. (Sections 16 and 17.)

(c) Government fiscal operations. (Section 21.)

ISSUE OF NOTES

The bill provides for the maintenance of existing bank notes outstanding so long as their present issuers want to keep them out, and also calls for the establishment of a note issue on a new basis to be put out by the National Reserve Banks. Provision is, however, made for retiring the present National Bank notes at the discretion of their issuers. This plan comprises the following points:

(1) Every national bank would be allowed to continue its note issue exactly as at present. (Section 26.)

(2) It would not, however, be allowed to increase the issue beyond the point at which it stood when the law was passed. (Section 26.)

(3) No newly organized bank would be required to purchase government bonds; hence no new bank would have any note issues. (Section 26.)

(4) Whenever an existing bank retired any of its notes and withdrew its bonds it would lose the right to put out further issues of notes above the amount to which its issue was thus reduced. (Section 26.)

(5) National Reserve Banks would be allowed to issue notes secured in the same way as their other obligations to an amount equal to twice the par value of their capital stock. They would also be allowed to issue additional notes if they desired, equal to the amount of notes withdrawn by the individual banks which might from time to time surrender their note issue privilege in part or in whole. (Sections 25 and 26.)

DISPOSAL OF U. S. BONDS

Recognizing (a) that the present 2 per cent bonds were sold to the banks on the basis of a pledge that they might continue to be used as a basis for circulation, and

that therefore the government is morally bound to maintain their value in a corresponding degree; (b) and that it is desirable to retire the bonds now held behind bank notes and put in their place bonds whose value is sustained solely by their income-paying power, it is provided that:

(1) Banks now holding the bonds may offer these bonds for redemption or conversion into 3 per cent bonds at a rate not to exceed one tenth of their holdings each year. (Section 26.) This would mean that a maximum of about \$65,000,000 a year could theoretically be converted, and the evidence is that that sum would be absorbed without difficulty by investors each year.

(2) At the end of ten years other holders of bonds would be allowed to convert them into 3 per cents. (Section 26.)

(3) As a result of these changes the government would be obliged to increase its interest charge the first year of the new arrangement by an amount not greater than one per cent on \$65,000,000, or \$650,000, while the second year a like addition would be made and so on, until at the end of ten years a possible maximum addition of \$7,300,000 in interest charges would probably have been assumed.

PROTECTION OF NOTES

Fully admitting the necessity of an absolute protection of note issues, the bill seeks to safeguard those for which it provides as follows:

(1) National bank notes are safeguarded at every point by exactly the same elements of protection which exist to-day, none of these being diminished in the slightest degree.

(2) Notes issued by National Reserve Banks are protected by a large gold reserve, by constant close government supervision, and by immediate and prompt redemption. Stringent provisions are made against counting any of these notes as a part of bank reserves, thus insuring their speedy return to the point of origin. (Sections 30, 31, etc.)

(3) All notes are made receivable by the government and are to be received by every bank in the system on deposit at par, without exchange. (Section 23.)

(4) Uniformity in the currency is obtained by making the National Reserve notes identical in appearance and wording with the National bank notes. (Section 23.)

(5) Power to oversee and control the issue of notes is placed in the hands of a supervisory board. (Sections 13, etc.)

GOVERNMENT CONTROL

Overseeing the whole system is created through a so-called Federal Reserve Board, (Section 13) with the following organization and functions:

(1) Board to consist of representatives of (a) National Reserve Banks (b) bank stockholders (c) the government itself. (Section 10.)

(2) Actual working body to be an executive committee of this Board consisting of Secretary of the Treasury, Comptroller of the Currency, and Attorney-General, with four members of the Federal Reserve Board chosen by the latter. (Section 11.)

(3) Board and Executive Committee, as thus made up, to have power to deposit Government funds in National Reserve Banks, to fix rates of rediscount in such banks, to compel any National Reserve Bank to rediscount the paper of any other, and to examine the banks of the system. (Section 13.)

STRUCTURE OF SYSTEM

The effort has been made to "popularize" the control of the whole system of banking thus built up while at the same time preserving a sufficient amount of centralization, controlled by governmental agency, to insure that the whole system shall be responsive to legitimate public demands. The bill is based on the belief that no one should participate in the control of the system unless he is either financially interested himself or chosen by those who are, save insofar as the government steps in to exert the authority of the whole community. With this in mind the system has been developed as follows:

(1) Organization, powers and functions of national banks are left as at present.

(2) National Reserve Banks are incorporated institutions holding Federal charters and in all respects managed like na-

tional banks except as to the election of directors which is provided for as follows:

(a) Banks in every district are divided into five classes according to capitalization. In each class the directors of the banks nominate a candidate for the directorship of the Reserve Bank. These are then voted on (one bank one vote) and a director is chosen for each of the five classes—five in all. (Section 4.)

(b) In the five classes aforesaid bank stockholders vote for and elect a director for each class by a process prescribed in each case making five in all, or with the preceding five, ten. (Section 4.)

(c) The ten men thus named select four others after a prescribed process, eight votes required to elect, and the nominees subject to rejection by the Federal Reserve Board. (Section 4.)

(d) A fifteenth member, to be Chairman of the Board of Directors is chosen by the Federal Reserve Board itself. (Section 4.)

(3) The Federal Reserve Board consists of two members from each district and the three government officials already specified. (Section 10.) It is not an incorporated body, has no banking functions but is supervisory.

(a) One member of the Federal Reserve Board in each district is chosen directly by the directors of the National Reserve Bank of the district. (Section 10.)

(b) A second member of the Board from each district is chosen by the bank stockholders of the district, voting by a prescribed method. (Section 10.)

(c) These members of the two classes referred to choose by ballot four of their own number to join with the government officers already mentioned as the Executive Committee of the Board. These four are designated by the Secretary of the Treasury to hold the offices of President, first and second Vice-Presidents and Secretary of the Federal Reserve Board. (Section 11.)

RESERVES

In the belief that the present reserve system is antiquated and unsatisfactory, that the massing of funds in New York and other financial centers of which so much has been said in recent years, is largely due to

the present reserve requirements of national banks, and that in order to get the real benefit from the system of rediscount which has been proposed as a remedy for many existing evils, it is necessary to base such system upon an actual control of reserves, provision has been made for recasting the present bank reserve system.¹ The plan includes:

(1) Transfer of reserves from existing national banks in reserve and central reserve cities, to National Reserve Banks. (Section 27.)

(2) Spreading out of this process of transfer over a period of fourteen months in order to give as little shock as possible to market conditions. (Section 27.)

(3) Ultimately the establishment of a Reserve System, at the end of the transition period in which so-called country banks will have 15 per cent of reserve (*i. e.* 15 per cent of total demand liabilities) such 15 per cent to be held, 5 per cent in the bank's vaults, 5 per cent with the National Reserve Banks and 5 per cent either at home or with the Reserve Bank; while reserve and central reserve city banks will have reserves of 20 per cent of demand liabilities, of which 5 per cent will be at home, 5 per cent with the Reserve Bank of the district and 10 per cent either at home or with the Reserve Bank. (Section 27.)

(4) The presumed effect of this plan will be to end the placing of reserves with central reserve city banks for use in stock market operations, to keep reserves in some measure at home, and to require speculators to get the funds they need in their operations either by directly borrowing them from persons who hold them and want to lend the cash for that purpose, or else by borrowing from the banks in the places where the operations are to be carried on.

DIVISION OF BUSINESS

The object of the bill is to effect a moderate division and classification of banking business along indicated lines. The net result, presumably, being summed up as follows:

(1) National Reserve Banks will be strictly limited to actual commercial and

industrial transactions evidenced by very short term paper and on rare occasions under carefully prescribed conditions to financial operations protected by collateral. They will also be able to engage in foreign exchange operations, sales of government securities, etc., as already explained.

(2) National banks will be subjected to precisely the same restrictions as at present with a relaxation in favor of a moderate amount of real estate loans by country banks under carefully guarded conditions. (Section 39.)

(3) By a revision of the administrative features of the National Banking Act, provision will be made for close oversight of National institutions with a view to holding them strictly up to the requirements of a legitimate banking business. (Text of bill still to be submitted.)

(4) In order to possess themselves of the kind of paper entitling them to rediscounts, national banks will find themselves obliged to keep a reasonable proportion of their assets in the form of paper eligible for rediscounting, and this will mean very considerable emphasis upon the strictly commercial aspects of the business done by national institutions.

POSITION OF STATE BANKS

It has not been thought wise to permit State banks to own stock in the National Reserve Banks for two reasons:

(1) State banks by the terms of their organization are differently managed and controlled from national.

(2) The laws of the United States differ with respect to liabilities, the collection of debts, and other matters.

Hence the bill has attempted only to provide for giving these banks equal facilities for doing business by establishing the following conditions:

(1) State banks may affiliate themselves with National Reserve Banks by maintaining the same deposits with the National Reserve Banks that are kept by national banks under the proposed act. (Section 29.)

(2) State banks shall in these circumstances be entitled to do business with and get rediscounts from National Reserve Banks. (Section 29.)

¹ Including collections and clearances.

(3) State banks shall be subject to inspection and examination by National Reserve Banks. (Section 29.)

RELATIONS WITH TREASURY

It is believed that the present sub-treasury system is unsatisfactory, clumsy, injurious to business and difficult to manage in times of stress. The bill therefore provides for:

(1) The placing of all current funds of the Treasury in National Reserve Banks and the payment of government creditors by check thereon. (Section 21.)

(2) The equalization of the public funds between the different reserve banks subject to a rate of interest to be fixed by the Federal Reserve Board. (Section 13.)

(3) The trust funds of the Treasury are to be held as at present in the vaults of the Treasury.

FOREIGN BANKS

Recognizing that present banking legislation under the national system is inadequate in its relation to foreign trade, because it furnishes far too little recognition of the necessities of the case, and believing that the development of foreign banking ought to be aided and promoted and at the same time regulated by the national government, it has been sought in drafting the bill to provide:

(1) A new type of institutions created for foreign trade purposes and organized by individuals or existing national banks or both. (Section 41.)

(2) Permission to establish branches in foreign countries and whenever necessary under specified conditions to establish such additional branches in the United States as may seem requisite.

(3) Authority on the part of the National Reserve Banks to deal in foreign exchange and otherwise to facilitate operations involving international trade. (Section 18 and Section 19.)

(4) Permission to national banks to do an acceptance business in all matters relating to foreign trade, the importation and exportation of goods, the furnishing of travellers' funds on letters of credit, etc.

(5) The more efficient and successful handling of financial relations between the United States and foreign countries through

the placing of Treasury funds in the hands of National Reserve Banks.

COMMITTEE SUSTAINS BILL

The work of the Banking and Currency Committee covered a period of several weeks and was largely devoted to the improvement of details in the pending bill. A list of these changes would not be of special interest, even were it possible in a brief treatment of the history of the Federal Reserve Act. It is enough to say that the Committee speedily developed a difference of opinion with respect to the measure, a substantial section of it desiring to broaden the bill in the direction of action which would give to agricultural interests a larger borrowing power. Accordingly, the maturity of paper based upon farming operations was increased to 180 days although all other paper was prohibited from discount for a period of over 90 days. Some other concessions were made to so-called farming interests. Public control over the Reserve Banks was strengthened and a provision creating a so-called Federal Advisory Council, a body of bankers drawn from the various districts and directed to meet at intervals for consultation with the Federal Reserve Board, was established.

Outside these and a relatively small number of other amendments the changes in the Banking and Currency Committee of the House of Representatives amounted to little more than textual change effected for the purpose of improving or clarifying the language employed. When the bill, on September 9, was ready for introduction in the House of Representatives, with a committee report, but little alteration in it had been made in any essential particular. First, however, it was necessary that the bill should pass through the House of Representatives

caucus of the Democratic party. Although severely attacked in the deliberations of this body, which were held behind closed doors, no material change was introduced and the bill accordingly went to the House on September 18. After a short debate, it was finally adopted and sent to the Senate in a form not very different from that already given to it by the Committee.

SENATE HOSTILITY

In the Senate the Federal Reserve Bill, for as such it was now coming to be known, encountered much more serious opposition than it had been obliged to meet and overcome in the lower chamber. The Banking and Currency Committee as then organized was not friendly to it. The Chairman of that Committee, Senator R. L. Owen, had prepared a bill of his own which had not succeeded in making headway. Its place was taken by the Federal Reserve bill which he had finally consented to introduce as drafted in the House.

In the Banking and Currency Committee at least two Democratic groups, neither of them friendly to the measure, were formed, while among Republicans practically two other groups existed, one inclined to favor the bill, the other, to oppose or remodel it. In hearings before the Senate Committee, lengthy opportunity was given to the advocates of a central bank to present argument. Eventually the discussion, although taking a wide range, settled down about the question as to whether there should be fewer or a larger number of Reserve Banks whether the Reserve Banks themselves should have full power over reserves and collections, and whether the type of note issue which had been favored in the House bill should be retained. It was with great difficulty and, probably, only as a result of the strongest pres-

sure on the part of the Administration that it proved possible to obtain a favorable report to bring the bill before the Senate for debate and eventually to pass it.

Analysis of the Senate debate would be out of the question in any brief space and may therefore be passed over with the remark that, although the discussion resulted in changes in the Federal Reserve bill, which, when combined with those already made by the Senate Banking and Currency Committee, produced a measure very different from that adopted by the House, nearly all of the changes made by the Senate, as will presently be seen, were ultimately surrendered in Conference Committee, the bill being thus shifted back in substance to the original House form. During the Conference Committee sessions, it is worthy of remark, one important innovation was introduced; a substitute section relating to the refunding of government 2 per cent bonds was transmitted to the Committee by Secretary McAdoo and adopted practically as it stood in lieu of the provisions which had been made on that subject by the two houses.

CHANGES BY THE SENATE

It is now worth while to sketch briefly and succinctly the changes made by the Senate in the House draft of the Federal Reserve Act insofar as they were ultimately retained in the final law. The work thus done may be surveyed as follows:²

Turning first to the alterations in the House bill that secured acceptance, the principal features may be enumerated as follows:

(1) Introduction of provision for sale of stock in Federal Reserve Banks to the public in the event that not enough banks

² From article by the author in *American Economic Review*, March 1914.

subscribe for the stock to furnish an adequate capital in any given district.

(2) Provision for alternative voting in the choice of directors of Federal Reserve Banks so as to insure prompt election.

(3) Reduction of number of Federal Reserve Banks to not more than 12, as against the "at least 12" of the House bill.

(4) Elimination of requirement that all national banks recharter.

(5) Broadening of powers of Federal Reserve Board and modification of language relating to rediscounts between Federal Reserve Banks, so as to render such rediscounts easier than was intended by the House bill.

(6) Provision that the Secretary of the Treasury might, not must, deposit public funds in reserve banks.

(7) Reduction of reserve requirements placed upon member banks under House bill.

On the other hand, the following important points were yielded by the Senate in the conference:

(1) Omission of provision that holders of stock sold to private individuals (if any) should have voting power in directorates of Federal Reserve Banks and elsewhere.

(2) Elimination of guaranty of bank deposits, by use of surplus earnings.

(3) Elimination of provision that Federal Reserve Bank notes might be counted in reserves of stockholding banks.

(4) Restoration of provision that many classes of checks should be collected at par throughout the country, and that where such par collection was not enforced, the charge for making collection should be fixed by the Federal Reserve Board.

(5) Elimination of domestic acceptances, thereby excluding them from use by stockholding banks and from rediscount by Federal Reserve Banks.

(6) Modification of reserve requirements as formulated by the Senate so as to require actual cash reserves in the vaults of country banks (the Senate having entirely dispensed with such reserves after twenty-four months after date of the passage of the Act) and general stiffening of reserve requirements made by the Senate, although the final language still con-

stituted a reduction below the House provision.

(7) Reduction of period of maturity for which discountable paper might run from 180 days to 90 days.

While various other points of modification and concession on either side might, of course, be enumerated, it is believed that the foregoing presentation is representative and shows sufficiently well the nature of the conference work and the character of the points conceded on either side. Assuming that such a fair or representative selection has been made, it is evident that the work of the conference resulted in the establishment of the House contentions at nearly every essential point, the exceptions to such a remark being found in two main particulars: (1) the reduction in the number of Reserve Banks and their limitation to not more than twelve at any time, and (2) the provision that public deposits might or might not be made in the Reserve Banks at the discretion of the Secretary of the Treasury.

While other points were significant and important in their way, it can certainly be fairly concluded that on those matters involving important issues of theory the House virtually held its own in most respects. In fact, it is an accurate generalization that the final bill as completed in conference committee and as passed by both Houses was a closer approach to the original House draft of the measure than anything that had intervened during the time the bill was going through the various permutations to which it was subjected in its slow progress from one stage to another of the legislative process.

At one other point there was marked and vital departure from the original House measure—the provision with reference to the refunding of United

States 2 per cent bonds and the treatment of the currency based upon such bonds. On this subject the final action of the conference was nearly equivalent to the acceptance of a plan formulated by the Administration and designed to take the place of all of the various other schemes that had been recommended from different sources in either House. The action as to bonds was, therefore, not a concession by either side but was a virtual surrender by both and an acceptance of the conclusions of the Treasury Department. Barring the two matters already mentioned, the House measure was changed in no respect that affected its essential working; nor could it be said that even in these particulars it had necessarily been subjected to modification, since, in both, the action contemplated by the provisions ultimately adopted was permissive, rather than compulsory.

THE INSPIRATION OF THE BILL

As to the idea by which the Federal Reserve Act was dominated or upon which it was molded, or as some have termed it the inspiration of the bill, there has been much unnecessary controversy. The measure as originally made ready for introduction was the outgrowth of the long years of discussion of the banking and currency problem through which the country had passed from 1893 onward. The notion of a district reserve system was directly and confessedly drawn from the experience of the banks of the country with local clearing house organizations. Other features were the careful result of foreign experience. While the bill was thus made up of ideas drawn from all available sources so far as these were known to the committee of the House of Representatives, it was prepared as the result of individual study and without the acceptance of outside bills, suggestions or models. It was, in

short honest in its inception, professing to be with all of its various defects simply what it actually was—a measure prepared on the basis of American experience, enlightened and adapted by the use of such lessons as could be drawn from European banking practice. As the writer has said on a former occasion:³

The Federal Reserve Act is the product of a lengthy course of development and has grown gradually out of the discussion and analysis of the past twenty years. It is not drawn, even largely, from any single source, but is the product of comparison, selection, and refinement upon the various materials, ideas and data, rendered available throughout a long course of study and agitation. Many bills embodying the same general line of thought that now finds expression in the new act have been offered in Congress; some have been suggested outside that body. The most fundamental concept of all—that of uniting the banks of the country into organized groups—is found in the clearing house organizations, which in time of stress have pooled their resources and converted bank assets into the equivalent of reserve money. The bills prepared by or under the direction of the Honorable Isidor Straus, the Honorable J. H. Walker, the Honorable Charles A. Fowler, and the Honorable Maurice L. Muhlenberg have supplied at least the basis for many of the detailed analyses and methods of treatment that are found in the Federal Reserve Act. Earlier than any of these, was the bill recommended by the Indianapolis Monetary Commission, which did not provide for coöperative unions of banks, but upon which the framers of the present act have evidently drawn for some of their ideas.

The latest bill in the long series which was available for study to the framers of the Federal Reserve Act, was that prepared for the National Monetary Commission and called in popular language the "Aldrich bill." By many the new law is regarded as a partial copy of, or plagiarism from, the Aldrich bill; and that view has been widely

³ *American Economic Review*, loc. cit.

expressed both in and out of Congress. That such was not the opinion of Mr. Aldrich himself, his scathing and bitter denunciation of the House bill seems to bear abundant witness.⁴ It might be enough for purposes of argument simply to appeal on this point from the critics of the measure to Mr. Aldrich himself but that would hardly answer the purpose of historical analysis.

The Aldrich bill may be considered from two standpoints, (1) that of its theory and broad general plan on the one hand, and (2) that of its machinery and technique of construction on the other. From the first standpoint, there is no shadow of relationship or similarity between the Federal Reserve Act and the Aldrich bill. From the second, there is at many points a close resemblance. The Aldrich bill provided for a single central "reserve association" with scanty public oversight, with control vested practically wholly in the banks, and with the preponderance of power in the larger institutions which owned stock. It so arranged things as to keep this "reserve association" relatively inactive except upon special occasions of panic or disturbance.

It made no direct provision for the shifting of reserves in part from existing banks to the proposed association, but it relied upon inflation due to the placing of bank notes issued by the central association in the reserves of the stockholding banks for protection in time of danger. The new act provides for twelve reserve banks, introduces the principle of local control, calls for strict government oversight, shifts reserves from present correspondent banks to the new institutions, minimizes the influence of the larger banks in directorates, and generally diffuses control instead of centralizing it. It leaves banking, as such, to be practiced by bankers; it vests the control of banking in the hands of government officers. The theory and purpose of the new act are widely different from those of the Aldrich bill. Where the Aldrich proposal veers widely away from the tendencies that have been developed during the preceding ten years of American banking discussion, the Federal Reserve Act closely follows them. Indeed, the Act of 1913 is closer to any one of half a dozen bills of former years than to the Aldrich proposal.

The Aldrich-Vreeland Emergency Currency

By HOMER JOSEPH DODGE

Editor, The Federal Trade Information Service¹

THE origins of everything in the world, from man himself to slang words and phrases, from vast and perfect mechanisms to manners and customs, or great eras and economic cycles, always have held a special fascination. And there has always been someone, whether it be Darwin or the Encyclopaedia Britannica, to ferret out each firstling.

To point to the circumstances of the origin of the American currency inflation, the progress of which during the last seven years has had so profound an effect upon every branch

of our national activity, is not a difficult task. Although inflation of such tremendous proportions previously had been unheard of, the stage was especially set in preparation for that event. As a preliminary to the more serious later currency inflation, the United States had innocently provided itself with a lively springboard from which to leap.

THE FORERUNNER OF INFLATION

That springboard was the Aldrich-Vreeland Act which provided a sudden

⁴ Proceedings of American Academy of Political and Social Science, October, 1913.

¹ I am indebted to the office of the Comptroller of the Currency for the statistics of the Aldrich-Vreeland note issues.

means for issuing hundreds of millions of dollars in emergency currency. To be sure, it was designed merely to meet temporary needs for additional currency in periods of financial stress. It was intended that this currency should never remain long outstanding, but should merely supply the nation with a currency medium during the brief period required to restore confidence following a market upheaval or similar economic disturbance of known dimensions and experienced intensity. An aggregate of \$500,000,000 was provided for this purpose. That a need should develop in this generation for greater sums was undreamt.

The panic of 1907 had been a severe lesson to the American banking fraternity and to the nation as a whole. At that time clearing house certificates had been issued to the extent of \$255,536,300—a great sum then—and Congress, intent on providing a preventive against a similar embarrassment, had passed the Aldrich-Vreeland Currency Act, which was approved May 30, 1908. It was regarded as an emergency implement to be supplanted by more solid legislation and, therefore, was to expire by limitation, June 30, 1914. The permanent legislation was provided, for on December 23, 1913, the Federal Reserve Act was approved. The Federal Reserve Banks were not opened, however, until November 16, 1914, so when the European War broke out the permanent system was not ready for operation.

The War was the call-bell for the beginning of the performance of worldwide inflation. The American vehicle of participation was not ready, so Congress brought back, as a curtain-raiser, the Aldrich-Vreeland Emergency Currency Act. It extended the life of the act from June 30, 1914, to June 30, 1915.

WAR DEMAND FOR MONEY

In times of stress of almost any kind, money is the first support on which mankind leans. Availability of ample supplies of money goes far toward alleviating almost any distress. The War had not yet had an opportunity to bring home the lesson that in an economic sense, goods and services, and not money, are the king pins. With the Stock Exchange closing, and banks and business houses and individuals throughout the country in a state of bewilderment over the meaning of the War, everyone wanted money quickly.

Europe instantly began unloading her railroad and industrial securities in this market. Belligerent governments began awarding contracts for war supplies. Prices began to rise, and a thousand new demands for money sprang up. This demand, coupled with a caution on the part of the banks, arising from the native timidity of capital in the presence of great material forces, doubtless would have caused serious embarrassment had it not been for the availability of the Aldrich-Vreeland emergency currency.

A curious fact attendant upon the issuance of this money bears upon the political aspect of the event. The Federal Reserve Act had been widely press-agented to the country as a great achievement of the Democratic Congress. It was a Wilson bill, one of the heralded Democratic reforms. Now the Aldrich-Vreeland Act, as its very name signifies, was the creation of an old-fashioned Republican Congress. It was popularly known that the Federal Reserve Act had been approved; that its machinery was in process of erection. The Aldrich-Vreeland Act was forgotten. Wherefore, when, in response to the demand of the hour, an emergency currency

appeared, it was popularly received as the issue of the new Federal Reserve System. It is not a matter of large importance, but rather a curiosity of financial history, that to this day many business men are under the impression that the emergency currency with which they did business in the first few months of the War was Federal Reserve currency.

At the beginning of the crucial period following the declaration of war in Europe, the general stock of currency in the United States amounted to \$3,735,579,397, of which \$368,210,467 was held in the Treasury as assets of the government, leaving the amount in circulation at \$3,367,368,930. Of the general stock, there was in gold, \$1,887,270,664; silver, \$748,287,696; United States notes, \$349,114,016; and national bank notes, \$750,907,021.

On August 1, 1914, the stock of incomplete currency in the custody of the Comptroller of the Currency and available for issue on the security of United States bonds and other securities, was \$524,864,470. The aggregate amount of government bonds on deposit to secure circulation, together with the amount of such bonds outstanding and acceptable for that purpose, aggregated \$913,317,500, of which the national banks had on deposit to secure circulation, \$740,796,910, to secure United States deposits, \$23,047,950, and on hand unpledged, \$11,950,300. Hence, only about \$137,500,000 of the class of United States bonds acceptable as security for circulation were not owned by national banks. This amount, plus \$11,955,300, owned but unpledged, or in round amount, \$149,500,000, was the measure of the possible increase of national bank circulation on the security of United States bonds.

On August 1, 1914, the outstanding national bank circulation amounted to \$750,907,020, of which \$735,222,801 was secured by United States bonds, and the remainder, \$15,684,220, by lawful money deposited by banks in liquidation and by those that were retiring their circulation. On September 12, 1914, the date of the first report from national banks following the beginning of the European War, the reporting banks had on deposit with the Treasurer of the United States as security for circulation, United States bonds to the amount of \$736,685,850. On that date the volume of circulation issuable under the Act of 1908, that is, 125 per cent of the combined capital and surplus of the banks, amounting to \$2,230,588,239, less the amount of currency issued on United States bonds, was \$1,493,902,390. As a matter of fact, the authorized issues of currency under that Act, from the date of the first issue on August 4, 1914, to the date of the last issue on February 13, 1915, were but \$386,444,215, or less than one-fourth of the maximum issuable. The amount authorized included \$910,500 secured by state and municipal bonds deposited with the Treasurer of the United States in trust by eight national banks, all other issues being based upon securities deposited with national currency associations.

During the period of activity of issues of circulation under authority of the Act of 1908, the volume of United States bond-secured circulation was practically unchanged. The aggregate amount of outstanding national-bank circulation reached the maximum, during the period in which emergency circulation was issued, in the middle of November, 1914, namely, \$1,126,039,600.

PROVISIONS FOR RETIREMENT OF ALDRICH-VREELAND CURRENCY

The law authorized the deposit of lawful money or national bank notes for the retirement of this additional or emergency currency. By reason of general conditions and the lack of demand for funds, deposits for retirement of the additional circulation began to be made as early as the middle of October, and by January 2, 1915, aggregated \$238,698,460, or over 60 per cent of the total circulation authorized to be issued. Within nine months, that is, by May 1, 1915, \$380,039,030 of the authorized \$386,444,215 of this currency had been retired, and prior to June 30, 1915, the entire amount issued had been retired except the sum of \$200,000, the amount issued to a national bank that failed and was placed in charge of a receiver.

In addition to the securities deposited, the law provided that "the banks and the assets of all banks belonging to the association (national currency), shall be jointly and severally liable to the United States for the retirement of such additional circulation."

The value of the securities deposited with the currency associations, that is, the market value of the state and miscellaneous bonds and the face value of the commercial paper and warehouse receipts, including exchanges, was, roundly stated, \$907,380,000 of which \$651,146,000 was in commercial paper. The net value of the securities, that is, the gross amount deposited less exchanges, exceeded the value of circulation issued by more than 30 per cent.

Under the provisions of law and the rulings of the Treasury Department, securities deposited were classified as follows:

1. State, municipal, and county

bonds were accepted at 85 per cent of the market value.

2. Miscellaneous securities, including industrial bonds, and other securities, mainly city and town notes and warrants, were accepted at 75 per cent of the market value.

3. Commercial paper was accepted at 75 per cent of the face value, and—

4. Notes secured by warehouse receipts for cotton, tobacco, and naval stores at 75 per cent of the face value.

The additional circulation authorized and secured by commercial paper represented $57\frac{1}{2}$ per cent of the total amount authorized; by miscellaneous securities, 28 per cent; by state, county and municipal bonds, 14 per cent; and by notes secured by warehouse receipts, one-half of one per cent.

ACTIVITY OF NATIONAL CURRENCY ASSOCIATIONS

While there were between 7,500 and 7,600 national banks in active operation during the period in question and 45 national currency associations organized, the membership of these associations was but 2,197, and of that number only 1,363 took out additional circulation. None of the banks in four currency associations, namely, Vermont, Rhode Island, northern New York, and central New York, applied for circulation. All the states of the Union were included in one or more of the currency associations excepting Maine and Wyoming. None of the national banks in nine states, namely, Maine, Vermont, Rhode Island, Delaware, South Dakota, Montana, Wyoming, Idaho and Nevada, applied for additional circulation.

Eighty per cent, or \$309,308,210 of the authorized issue of \$386,444,215, was for banks in the reserve city

associations. The amount authorized for banks in the National Currency Association of the city of New York was \$144,975,960; Boston, \$24,944,500; Chicago, \$27,070,000; Philadelphia, \$14,883,750; Minneapolis and St. Paul, \$12,798,500; Dallas, \$11,337,950; Pittsburgh, \$10,978,000; St. Louis, \$10,836,500; Cincinnati, \$9,592,500; and San Francisco, \$8,634,500.

The tax collected on this additional circulation from August, 1914, to June 30, 1915, was \$2,977,066.73.

With the deposit of the requisite amount of lawful money to provide for the retirement of circulation issued under authority of the Act of May 30, 1908, and the release of the securing collateral, the duties of the national currency associations practically terminated, although the associations were held to be in existence until the date of the expiration of the act providing for their formation. The organization of the first national currency association, that of Washington, D. C., was approved July 18, 1908, and the last, the State of Vermont, December 16, 1914.

There were forty-five national currency associations organized with a membership of 2,197 banks, or 29.15 per cent of the total banks (7,538) that reported on the call of September 12, 1914. During the month of August, 1914, 30 associations made their first application for additional circulation, 6 in September, 4 in October; 1 did not report the date of its first application, and 4 associations made no application.

Forty-one associations approved for issue \$385,553,905 to 1,366 member banks. The first approval was made on August 3, 1914, and the last on February 5, 1915. The first application for the retirement of circulation was approved September 23, 1914. By July 1, 1915; all of the

banks to which currency was issued, with the exception of the First National Bank of Uniontown, Pa., which, upon becoming insolvent, was placed in charge of a receiver, had made the necessary deposit to retire their additional circulation.

The securities pledged with the associations aggregated \$585,864,391.94, classified as follows: commercial paper, face value, \$359,535,317.27, or 61.37 per cent of the total securities deposited; industrial bonds, par value, \$116,069,173.36, or 19.81 per cent; state, municipal and county bonds, par value, \$70,010,846.34, or 11.97 per cent; railway bonds, par value, \$31,333,800, or 5.37 per cent; other securities, face value, \$4,690,366.86, or 0.80 per cent, and warehouse receipts secured by cotton, tobacco, and naval stores, face value, \$4,224,888.11, or 0.72 per cent. The expenses of 41 currency associations, the members of which issued circulation, are reported at approximately \$125,000. Two non-issuing associations reported combined expenses, \$44.57. The other two non-issuing associations apparently incurred no expense.

DECLINE OF EMERGENCY CURRENCY AND INCREASE IN RESERVE NOTES

The Federal Reserve Banks had opened in the midst of this process, on November 16, 1914. Their machinery was unfamiliar and therefore there was no immediate substitution of the new currency for the Aldrich-Vreeland notes. Retirement of the Aldrich-Vreeland currency, however, set in early. Indeed, the date on which the greatest volume actually was outstanding was prior to the opening of the banks—October 24, 1914. This was due to retirement on the part of banks which had taken care of their emergency requirements and were

getting in shape to carry their own load. That the banking community had not abandoned the emergency currency in favor of the Federal Reserve currency is indicated by the fact that applications for the emergency currency continued to come in and the date on which the maximum approvals took place was not reached until February 13, 1915. By this time retirements of this currency had brought the amount outstanding down to \$45,377,141. The period in which the greatest volume was retired was the week ending December 12, 1914, and the amount, \$45,144,795.

There was no full replacement by Federal Reserve notes of the Aldrich-Vreeland notes. By January 1, 1915, a total of \$238,698,483 of the Aldrich-Vreeland notes had been retired while only \$16,530,000 in Federal Reserve notes were in circulation. On April 1, 1915, \$372,928,594 of the emergency currency had been retired and only \$43,376,000 in Federal Reserve notes were in circulation.

The two curves—one representing the retiring Aldrich-Vreeland notes and the other, the expanding Federal Reserve notes—crossed about March 1, 1915. On March 6, 1915, there were \$27,905,376 in Aldrich-Vreeland notes still outstanding. On March 5, 1915, there were \$29,805,000 in Federal Reserve notes in circulation.

The previous reporting date for the Aldrich-Vreeland notes was February 27, when there were \$32,249,374 outstanding. Compare this with February 26, when there were \$26,172,000 in Federal Reserve notes in circulation. The next subsequent reporting date was March 13, when there were \$24,357,227 in Aldrich-Vreeland notes outstanding. Compare this with March 12, when \$33,965,000 in Federal Reserve notes were outstanding. By June 30, when

the last of the Aldrich-Vreeland notes were retired and the Act expired by limitation, there were about \$83,000,000 in Federal Reserve notes in circulation.

So it will be seen that the Aldrich-Vreeland currency contracted at a much greater rate than the Federal Reserve currency was issued. This indicates how truly the Aldrich-Vreeland notes were an emergency—a panic currency. They were issued to allay panic or in anticipation of it; the Federal Reserve currency was issued in response to the actual needs of business. A further indication of these contrasting characters is furnished in the fact that applications for new emergency currency continued in substantial volume for a considerable time after the large retirements by the banks which had received supplies; this indicated that the emergency had passed. It is true that there was a heavy tax operating to force the emergency currency into retirement but this alone does not explain the situation. Had it been the tax which caused the Aldrich-Vreeland money to retire so precipitately, the untaxed Federal Reserve currency would have flowed out in greater volume. A year after the Federal Reserve Banks had been opened, the Federal Reserve notes in circulation were only \$184,000,000, less by nearly \$150,000,000 than the amount of Aldrich-Vreeland currency which had been outstanding a year ago.

These figures are surprising when retrospect brings them in contrast with the \$2,500,000,000 in Federal Reserve notes now outstanding and the \$3,250,000,000 outstanding a year ago. These figures further show how totally inadequate the maximum of \$500,000,000 in Aldrich-Vreeland notes would have been had the act further

been extended and sole reliance placed upon it to provide an additional currency. To be sure, there had been retirement of other classes of currency but not in such fantastic volume as to match the issuance of Federal Reserve notes.

Economists and bankers have learned a great deal about currencies since the days of the Aldrich-Vreeland issues and some rules have been upset. The phenomenon which has caused the most profound amazement has been the persistent vitality of grotesquely inflated currencies in some countries of Europe. The German mark is famous for its depreciation, the Russian ruble, notorious. Both have lost, apparently, practically all calculable relation to metallic reserves,

yet they display a lingering vitality and are accepted as being worth something, although as a matter of fact some of them are worth less than the merchandise value of the paper on which they are printed. A meal costs 100,000 rubles in Moscow, yet meals still are bought with rubles. They do circulate. The idea that the image and superscription is a talisman of some value, however much depreciated, endures in the face of accurate knowledge that the sovereignty behind these tokens practically is defunct. The idea of a legal tender has retained a momentum which, although slowed down, is yet perceptible. This fact speaks much for an innate desire on the part of the people to retain an artificial circulating medium.

The Reserve Act in Its Implicit Meaning

By A. D. WELTON

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A GREAT banking system could conceivably grow up of itself in response to the demands of business. Such a system would be ideal because of its flexibility and freedom of adaptation to the changing requirements of commerce. But no such system ever did grow up or ever will. A business, involving such an element of trust, is necessarily conducted by human agencies and human agencies are uncertain and often dangerous. Government everywhere, in one way or another, is concerned with banking. It is concerned with the Federal Reserve System which has been evolved or built up around a statute known as the Federal Reserve Act, approved December 23, 1913.

A statute, however, is only a first step toward a banking system which is finally made up of operating banks. These are credit and currency machines whose conduct, in accordance with the law, is guided, regulated and controlled by rules, precedents, traditions, habits, customs, decisions and what not.

The mass of this material makes the system. With this view of banking it is easy to understand why the coming of the Federal Reserve Act did not bring with it the repeal of the National Bank Act. The statute known as the National Bank Act might have been repealed but the act itself is only a part of the national banking system. The rules, regulations, precedents, etc., which make up that system, could, and perhaps should, be codified but anything further would bring uncertainties and throw the entire system into confusion.

As a banking system is composed of

a variety of things beside a statute, so the statute itself is the product of a variety of plans, purposes, ideas and theories of a wide range. To get a thorough understanding of a system of any kind, of which a statute is the nucleus, some knowledge of the discussion which preceded its formulation and adoption is desirable and perhaps necessary. Certainly, one ambitious to become expertly familiar with the Federal Reserve System would have to study conditions long before December 23, 1913. The purposes and intentions of the framers of the Act are not told in the Act itself. They are concealed in many reports, documents, and in many minds. They cannot all be told in brief space but discussion of a few outstanding points will perhaps be helpful in view of recent criticism of the Reserve System, newly declared distortions of its purposes and misunderstandings of its meaning.

It may be said on all the authority that exists, that the Reserve Banks are not government institutions, that they were not intended to be, and that any interference with their operations, beyond exercise of the powers conferred on the Federal Reserve Board, is perversion of the law and its meaning as understood and expressed by those who formulated it. The Federal Reserve Banks are privately owned institutions. Their stock is all owned by their member banks. The provision of the law that, in case the banks did not subscribe for the necessary amount of stock, individuals and the government could, has never been acted upon.¹

¹ Act December 23, 1913, § 2-¶ 29 et seq.

It is possibly true that some members of Congress voted for the bill in the belief that it provided for the establishment of government banks, but it is also probably true that more of them believed that, in some way, the bill opened the way for punishing or demolishing that political phantasy—the “Money Trust.” However, what congressmen believe is not evidence.

AN AMENDMENT THAT FAILED

It may be recalled that when the Glass-Owen bill was under discussion in the Senate a serious attempt was made to give the government power over the Reserve Banks by giving the Reserve Board or the Secretary of the Treasury power to appoint a majority of the directors of each bank. Senator Hitchcock of Nebraska offered the amendment, which had other supporters. Members of the banking and currency committees of both Houses were opposed to this amendment. They maintained it was out of harmony with the spirit and purpose of the measure. Chairman Glass of the House Committee and Senator Owen of the Senate Committee were showered with telegrams from all parts of the country, urging opposition to this plan. The amendment failed completely.

Another effort was made to give the government, through the Treasury, direct control over the Reserve Board. This effort had insidious features and was redolent of politics. During the Senate discussion of the Glass-Owen bill, new prints of the bill with minor changes were frequent. In one of these there appeared one day in December an alteration of a paragraph in Section 10, which was made to read, as it still reads, as follows:

Nothing in this Act contained shall be construed as, taking away any powers

heretofore vested by law in the Secretary of the Treasury which relate to the supervision, management, and control of the Treasury Department and bureaus under such department, and wherever any power vested by this Act in the Federal Reserve Board or the Federal Reserve Agent appears to conflict with the powers of the Secretary of the Treasury, such powers shall be exercised subject to the supervision and control of the Secretary.

The paragraph was innocent enough in appearance. No one seemed interested in it. Chairman Glass, of the House Committee, disclaimed all knowledge of its source, saying the bill had passed from his control. Chairman Owen, of the Senate Committee was non-committal. He thought the suggestion had come from the Treasury. The paragraph was not discussed on the floor. It passed the Conference Committee apparently without notice. Many other provisions were far more important.

Over a year later, a newspaper item made it known that the Attorney-General of the United States had given an opinion to the President to the effect that the Federal Reserve Board was an independent organization and not a bureau of the Treasury Department. When the President's secretary was queried as to the reason for requesting this opinion, he replied that the President had asked it “for Mac” but did not say whether “Mac” was Machiavelli or McAdoo.

It is not impertinent to point out that, when the Federal Farm Loan Act was on passage, the question of whether the Farm Loan Board should or should not be a bureau of the Treasury Department was fought out. Every form of the bill that came from the House Committee made the Farm Loan Board an independent organization. The Senate Committee invariably made it a bureau of the

Treasury Department. The Senate won. The Farm Loan Board is a bureau of the Treasury Department. The Federal Reserve Board is not.

RESERVE BOARD AN INDEPENDENT ORGANIZATION

The Federal Reserve Board can be classed only as an independent government organization, having supervision over the Federal Reserve Banks and exercising in that field powers defined by law.

The Federal Reserve Banks are privately owned institutions, managed by boards of directors chosen by their stockholders and authorized to function as banks, but within the provisions of law and the rules and regulations made under authority of law by the Federal Reserve Board.

The powers of the Federal Reserve Board are very broad but the great purpose of the law in creating the Board was to conserve the public interest, to provide safeguards against domination over banking by either financial or political interests, and to maintain a sound banking system.

DESIGNED AS AN AID TO BUSINESS

The Federal Reserve System was designed as an aid to business. It is applied only to commercial banking—that form of banking which takes account of the commercial scheme by which commodities are got from producer to consumer. The deposits in commercial banks mark the stored-up purchasing power of the community. Back of their loans are merchantable goods of greater value. Such banks must be liquid. They must pay on demand and their loans must, therefore, be of short maturities. In a general way a loan should run no longer than the estimated time it takes to get the goods behind it to the consumer. In relation to the producer,

the jobber may be the consumer; in relation to the jobber, the retailer holds that position; but, in any event, the final consumer must pay because he destroys the goods completely or takes them out of the class of merchantable articles.

Before the Reserve System came to give practical definition to commercial banking, commercial and investment banking were inextricably mixed. The money of commerce in the form of surplus deposits beyond the immediate needs of the owners, or in bank reserves, was drawn to the centers and chiefly to New York where it could be employed in the call loan market: that is, it could be loaned on demand against securities which represent invested capital. That system created all the "Money Trust" that ever existed.

The Federal Reserve System was intended to divorce investment from commercial banking. Notes secured by investment securities are, therefore, ineligible for rediscount. No matter how strong the market demand for such securities, they are not liquid in the sense that commercial bank loans must be liquid. At times they fluctuate widely in price. The call loan rate fluctuates accordingly. In 1907 it reached 125 per cent. An advance in commercial discount rates from 5 to 7 per cent indicates a critical condition in the commercial money market.

The plan to prevent stock market hysteria from affecting commercial business has been reasonably successful. But investment securities have not been kept out of the Reserve Banks. In Section 13, defining paper eligible for rediscount, it is provided that such definition (of eligibility) "shall not include notes, drafts or bills covering merely investments issued or drawn for the purpose of

carrying or trading in stocks, bonds or other investment securities, *except bonds and notes of the Government of the United States.*"

FISCAL AGENTS OF THE GOVERNMENT

The Reserve Banks were intended to be fiscal agents of the government and the exception as to government securities was natural at the time when the World War could not be foreseen. If anyone had thought that the United States would be issuing securities by billions before the Reserve Banks were four years old, it is doubtful if notes secured by government issues would have been made eligible for rediscount so jealous were the framers of the act of the strictly commercial character of the Reserve Banks.

Always uppermost in the minds of those men, both in and out of Congress, was the desire to keep commercial banking and the Reserve Banks free from investment securities. Innumerable proposals have been made for variations from this practice. The trials of war brought many. The farmer's insatiable demand for more capital and credit has been advanced a thousand times. It has been seriously proposed that railroad bonds be recognized as collateral for Reserve Bank loans. The pressure for some departure from the rule has been continual, if not constant.²

It is undoubtedly true that many supporters of the Federal Reserve bill in Congress were opposed to investment securities as collateral for notes eligible for rediscount only because of hostility to Wall Street and hatred of the "Money Trust." It is probably

true that the distinction between commercial and investment banking was not clear in the minds of all who voted for the bill. But it was clear in the minds of enough. To confine the Reserve System entirely to commercial banking may leave a gap in the banking scheme, but sufficient experience has been had to demonstrate the dangers of any lapse from the integrity of the present plan.

PROTEST AGAINST COMMERCIAL LIMITATIONS ON RESERVE BANKS

The War Finance Corporation was the greatest protest against the commercial limitations imposed on the Reserve Banks. The exigencies of war excused that law, if they did not justify it, but there is substantial ground for the suspicion, if not for the belief, that, underlying the plan for the War Finance Corporation, was the political desire to get for the government some measure of control over investment banking. Many "Money Trust" baiters fondly believed that the Reserve Act would cripple Wall Street. Some thought that control would be given over speculative activities. The War Finance Corporation might have had some such effect if it had functioned to the extent predicted. In its revival as a machine to meet an exigency in which something beyond the maturities permitted for rediscounts under the Reserve Act is necessary, it may fill a temporary need acceptably, but it could not function satisfactorily under other conditions, even if it is conceded that its present operations are satisfactory. On the other hand, it can only be said that, if the Reserve Banks cannot meet every commercial banking need, they are defective. The difficulty lies in determining just what is a commercial banking need. Surely it is not to hold up prices or make up or prevent

² The Federal Reserve Board adopted a policy in order to assist in the war financing which was economically unsound. Pages 62 and 63 of the hearings entitled, "Reviving the Activities of the War Finance Corporation."

losses occasioned by cataclysmic disturbances born of war. It is only fair to say that the first duty of commercial banks is to protect themselves. In doing that they protect business. So far as the present operations of the War Finance Corporation protect the commercial banks, the work is probably justified.

SOME THINGS THAT WERE INTENDED

It is not an invitation to controversy to say that the Reserve Act failed to abolish the office of Comptroller of the Currency for two reasons only: one was the political desire to keep the office in existence, and the other, the necessity for retaining temporarily an organization which was familiar with the bank records and had an operating mechanism. Similarly, the Independent Treasury system with numerous subtreasuries was marked for abolition but the work was deferred, as is told elsewhere in this volume.³

It was always the plan of the framers of the Reserve Act to secure the ultimate correction of the country's patch-work currency. It was a hard task, and is, with its difficulties increased by the clamors of the many who believe in fiat currency. However, provision is made for the ultimate retirement of both United States notes and national bank currency. A return to stable conditions will permit the execution of these provisions, although little attention has been given them as yet. The purpose of the Act was to give the country ultimately a currency composed of gold and reserve notes, with silver certificates as a sort of necessary evil to supply the demand for small bills. The disappearance of the silver during the War called forth the amendment permitting the issuance of reserve notes and Fed-

eral Reserve Bank notes of small denominations. It is hoped that the latter will soon find their way into oblivion.

Reserve Bank notes, of minor consequence in any event, have a significance as a by-product of the note controversy. Like the provision in Section 16 making reserve notes the obligations of the United States—a provision wholly at variance with the spirit of the Act and practically quite meaningless—Federal Reserve Bank notes attested the strength of the "cheap money" element and the desire of the advocates of soundness to avoid a direct test of that strength.

The bond-secured national bank currency and its retirement presented a problem of grave import. It was finally solved by the provisions in Section 18 requiring the Federal Reserve Banks to purchase such bonds, securing circulation, as were offered to the amount defined. Without discussing the methods of refunding and retiring such bonds, it may be said that the fiat money contingent revolted at the idea of having any securities carrying the circulation privilege in the hands of the Reserve Banks without providing a means of issuing notes against them. The means was provided. In due course such notes came into existence. Thus a law which was conceived in the idea that one of its great purposes would be to simplify and unify the currency, actually opened the way for the adding of a new patch and thereby heightening the crazy-quilt effect.

CHECK COLLECTIONS AND NOTE ISSUES

It is in Section 16 under the general title of "Note Issues" that there appears the provision empowering every Federal Reserve Bank to "receive on deposit at par . . . checks and drafts, etc."

³ See "The Assumption of Treasury Functions by the Federal Reserve Banks."

This and the paragraph which follows were those over which came the bitter controversy between country banks and Federal Reserve authorities. Of the merits or demerits of the arguments which that controversy aroused, nothing need be said here. The only significance for present purposes lies in the fact that "par collections" are provided for in the section devoted to note issues.

Around the question of note issue raged a conflict for many years prior to 1913. The conflict harked back to the Second Bank of the United States, the era when only the states chartered banks and every bank was a bank of issue. It had the savor from Civil War financial struggles; it had been carried through the greenback struggle; it changed its form, not its substance, when free silver was the cry, and it had redivivous whenever elasticity of the circulating medium was mentioned.

The ancient friends of much paper money were reasonably quiet when the advocates of a new banking system talked of the project in terms of bank reserves and credit, but when circulating notes were mentioned they were at home and rampant. Also they had to be dealt with and dealt with kindly and diplomatically. If they should be rubbed against the grain, there was danger that paper currency would be made so pronounced an issue that everything else would be forgotten.

This was the manner of the argument, although argument was a weapon of dubious value in that case: "Checks are the great currency medium through whose use the exchanges of commerce are effected. Elaborate investigation by the Monetary Commission's experts has shown that something between 92 and 98 per cent of all purchases are paid for with checks written against bank deposits. If checks are the chief medium of payment, they

serve the purpose of currency which may properly and logically be considered as expressing the same kind of credit in a different form."

The reply to this was that, in such a case, checks should be as good as currency. Certainly they should always be worth par. It was further agreed that elasticity demanded the constant retirement as well as the constant issuance of notes, because checks were instantly cancelled and retired once their work was done. Out of it all came the inclusion of "par collections" in the section on note issues.

However vigorously the subsequent conflict raged, the demonstration of similarity between notes and checks stood secure. The case had been proved, for another purpose perhaps, but proved nevertheless. In vain was it argued that checks are a non-circulating, not a circulating medium. In vain were private rights defended and pleas made that the banker also was worthy of his hire. Par collection stands and perhaps, after all, it was a small price the bankers paid for the relegation of fiat money to the limbo of obscurity.

There have been, of course, many departures from the plans of a reserve system as thought out by its promoters and framers. The making of twelve instead of eight reserve banks, is one instance. In many ways practical experience in operation has overthrown the theories of the system's sponsors. In many others business methods have been gradually altered and habits changed to meet the new banking scheme's requirements. There is much of political interest and much of economic value buried in the history of the struggle for a scientific banking system. A little trip among these buried treasures lets in light on later interpretations of the law. And

despite the tremendous progress made in Reserve Bank operation as the result of war necessities, there were distortions and stretchings of various provisions of the Act. Not yet has there been sufficient experience in times of

stable business, to permit a conclusion as to the complete sufficiency of the Reserve System but the foundation has been laid securely. The makers of the law builded well and in the face of very great difficulties.

The Purposes of the Federal Reserve Act as Shown By Its Explicit Provisions

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WHAT were the chief purposes of the framers of the Federal Reserve Act as those purposes are revealed by the explicit provisions of the Act itself? In answering this question it will be well to consider (1) the framework of the Federal Reserve System, namely, its plan of organization and control, and (2) its functions.

The chief contribution made by the framers of the Federal Reserve Act was in the plan of organization they proposed, the functions assigned to the Federal Reserve Banks being essentially the same as those recommended a few years previously for the National Reserve Association of the Aldrich Plan, as well as those of a number of central bank plans still earlier proposed in this country. They are, moreover, not very different from the functions performed by the leading central banks of Europe. In this paper, therefore, attention will be given almost exclusively to the framework of the plan.

REASONS FOR A GROUP OF CENTRAL BANKS

To foreigners who study the Federal Reserve System, the most striking fact about it is that it should have twelve central banks with compara-

tively few branches, instead of one central bank with many branches. There was nothing like this anywhere else in the world, at the time the Federal Reserve System was created and, so far as I know, there is no historical example of such a group of central banks.

There were two important economic reasons for providing a group of central banks instead of one central bank. These were:

(1) The need of a system that was adaptable to widely different conditions in different parts of an immense country like the United States, with particular reference to rediscount rates, and, (2) the desire to decentralize the control of the American money market in such a way as to weaken New York's alleged domination.

One serious objection to a single central bank in the United States was the difficulty arising from the fact that interest and discount rates for essentially the same kinds of paper usually differed considerably in different parts of the country; rates in the West and South normally ruled higher than those in the Middle West, and rates in the Middle West normally ruled higher than those in New England and the Middle States. It was believed that the establishment by a single bank of

a single rediscount rate applicable throughout the United States to the same kind of paper, would be of little use to New England and the Middle States if the rate were adjusted to the higher level of rates prevailing in the West and South, and that, on the other hand, if the rate were made as low as that prevailing in the East, it would be so attractive to the West and South as to result in a dangerous expansion of the bank's loans in those sections at the expense of the East. In time, of course, such a flow of funds from the East to the West and South would equalize rates throughout the country; but the amounts of capital involved were so great that it was felt that a long period of time would be required to achieve territorial equalization of rates, and the East was not favorably disposed to the drain of its funds to the West and South that such a movement toward equalization seemed to require. The maintenance by a central bank of different discount rates in different parts of the country on the same kind of paper, it was believed, would be politically (and probably also legally) impossible.

Although there were other kinds of desirable adaptability to different economic conditions in different parts of the country, it appeared on close examination that for most purposes sufficient autonomy could not be given to branches of a single central bank to enable them to adapt the character of their services to varying local conditions.

The second reason for preferring a group of banks was the widespread feeling that the banking system of the country was being unduly centralized in New York City, where a very large part of the deposited bank reserves of the country were held and where control was widely believed to be

exercised, *sub rosa*, by a handful of so-called Wall Street banks. The Pujo Committee's "Money Trust" investigation had strengthened this popular belief, particularly through the West and South. A single central bank, it was widely believed, would be increasingly dominated by New York, while a group of banks, it was argued, would weaken New York's control by causing the growth of a group of territorially centralized money markets, each of which would handle a large part of the business of its own district, and, to a greater or less extent, would compete with New York for open-market business.

These were the main reasons why the law provided for eight to twelve banks instead of one, and why the New York district was limited to such a small area with a strong Boston district at the northeast and a strong Philadelphia district at the south.

CHARACTER OF FEDERAL RESERVE BOARD

The proposal that the central governing board of the new system should be composed entirely of government appointees was met by a strong protest throughout the country, particularly from the banking fraternity. It was claimed by many that such a board would inevitably be constituted of inefficient political appointees and would be politically controlled, thereby making the Federal Reserve System the football of politics. Much was made of the claim that the bankers, who presumably would furnish the entire capital of the Federal Reserve Banks and who would be responsible for it to their stockholders and depositors, would have no voice whatever in the appointment of the board which was to control the broad policies of the new banks. This central board of seven men to be appointed exclu-

sively by the President was in striking contrast to the central board proposed by Senator Aldrich. Under his plan the board was to consist of forty-six directors of whom forty-two, including the governor and the two deputy-governors, were to be appointed directly or indirectly by bankers.

Despite the vigorous opposition to the proposal that the central board of the Federal Reserve System be appointed entirely by the President, the proposal was adopted. It should be noted that this board was not to do a banking business. That was to be done exclusively by the twelve banks, six of the nine members of the board of directors of each being elected by the member banks. It was primarily in the field of determining broad questions of policy that the Federal Reserve Board was to function, and in this field, it was claimed, the need was for financial statesmen who would view their problems broadly from the standpoint of public service. This was true because the functions proposed for the Federal Reserve System, like those that had previously been proposed for the National Reserve Association of the Aldrich Plan, were affected with a great public interest. Or this subject the writer in 1913, summarizing the conclusions of an address given by him in 1911, said as follows:¹

Is not the National Reserve Association too much of a public institution to be so largely controlled by one type of business interest, that is, that of the banking fraternity? We must get away from the prevalent idea that the National Reserve Association is to be principally a bankers' affair just because its capital is to be

furnished entirely by banks. We must bear in mind that its public deposits alone will for some time probably exceed its paid-up capital, that the funds which the banks deposit with the Association will be chiefly those which the public has deposited with the banks, and that the paper which the banks rediscount with it will be that of the business community. We must not forget that the National Reserve Association is to have a tremendous public power and responsibility, through its right to fix the bank rate of discount, its power over the foreign exchanges and gold shipments, its right to issue the country's only elastic paper currency, its supervisory power over banks, and its function of holding a large percentage of the country's reserve money, together with the privilege of having its promises to pay, in the form of its deposits and bank notes, counted as lawful reserve money for banks. Now it is possible, although by no means certain, that the interests of bankers as a class and those of the public are identical. It is certain, however, that history furnishes numerous instances in which what the public believed to be its interest and what bankers believed to be theirs were in conflict. One need not go back farther than the last two or three years to find a striking instance of the kind in the United States. I refer to the movement leading to the establishment of the United States postal saving depositories, which was opposed vigorously and almost unanimously by the banking fraternity. It is furthermore true, and perhaps of greater importance, that a large element in the country believes the interests of bankers to be in conflict with those of the general public on a great many vital questions.

Although Congress and the President did not budge an inch in their insistence upon making the Federal Reserve Board an exclusively government board, they threw a sop to the opposition by inserting in the law the provision for a "Federal Advisory Council" of bankers, one member to be selected annually by the board of directors of each Federal Reserve

¹ See "Banking Reform in the United States," *American Economic Review Supplement*, March, 1913, pp. 54 and 55; and "Some Public Aspects of the Aldrich Plan," *Journal of Political Economy*, December, 1911, pp. 819-339.

Bank from its own district, making the number of members in the Council equal to the number of Federal Reserve Banks. The relations of this Council to the Federal Reserve Board were to be entirely advisory. Neither voting nor veto power was given to the Council, which was required to meet at least four times a year and oftener, if called by the Federal Reserve Board. Members of the Federal Reserve Board who were to be "on the job" three hundred days in the year, it was generally thought, would not be likely to be greatly influenced as to their own job by a group of advisers coming from widely separated parts of the country who would meet infrequently. Happily during the last year or so, the Advisory Council has belied this expectation.

FEDERAL RESERVE BANK DIRECTORATES

In its provisions for the directorates of the Federal Reserve Banks, the Act well reveals the purpose of its framers to create a group of federated organizations that at one and the same time would (1) recognize the public's dominant interest in matters of broad policy; would (2) recognize the dominant interest of the banker and the banker's business customer in the narrower banking questions, such as the goodness of the paper against which advances were to be made, the amounts to be loaned individual member banks, the quality of open-market investments, and the like, and would (3) permit of a democratic control among the member banks of this banking business.

Of the nine members of the board of directors, three (including the chairman and the vice-chairman of the board) are Class C directors, who are appointed by the Federal Reserve Board and are directly responsible to

that Board. Their salaries are fixed by the Federal Reserve Board, and that Board may suspend Class C directors or remove them from office. These directors are the connecting links between the central Board and the Federal Reserve Bank. They keep the central Board informed as to the developments in each Federal Reserve Bank. It is through them that the Federal Reserve Board exercises its control over the broad policies of the Federal Reserve System and compels the necessary teamwork among the twelve banks.

This same sort of representation and control on the part of the Federal Reserve Board is carried through to the branches of the Federal Reserve Banks, each of which is operated under the supervision of a board of directors "to consist of not more than seven nor less than three directors, of whom a majority of one shall be appointed by the Federal Reserve Bank of the district, and the remaining directors by the Federal Reserve Board."

The other six directors, constituting two-thirds of the board, are elected by the member banks. Their concern is primarily with the banking operations of the bank, notably the character and quantity of its rediscounts and collateral loans for member banks, its open-market operations, its discount rate policy (subject to the approval of the Federal Reserve Board), and the like. Of course, the Class C directors likewise vote on these banking questions.

To every bank loan and to every bank deposit, there are at least two directly interested parties, the bank and the bank's customer. The bank's customer is usually a business man or a business concern (using those terms in their broader meaning). In recognition of this dual interest in most banking operations, the Federal Re-

serve Act provided that, of the six directors who were to be primarily concerned with the direct banking operations of the Federal Reserve Bank, three, known as Class A directors, should "be representatives of the stockholding banks"—as a matter of fact they are practically always bankers—and that the other three, known as Class B directors, should at the time of their election be "actively engaged in their district in commerce, agriculture, or some other industrial pursuit." Here is the recognition of the interest of the non-banking business community in the banking operations of the Federal Reserve Banks.

The purpose of democratizing such control over the Federal Reserve Banks as should be exercised by Class A and Class B directors is seen in the rather unique provisions for the election of directors contained in the Act as originally passed. This Act divided all member banks of each district into three groups, each group containing "as nearly as may be one-third of the aggregate number of the member banks of the district and . . . [to] consist, as nearly as may be, of banks of similar capitalization." Each of these groups was to elect one Class A director and one Class B director, on the democratic plan of "one bank one vote" regardless of the size of the bank. Under this plan the peculiar interests of the small banks, of the middle-sized banks and of the large banks, respectively, were assured representation. The democracy of a plan that gave the same voting power to the bank of \$25,000 capital that it gave to the bank of \$250,000 capital and to that of \$25,000,000 capital made a strong appeal to those who feared "Money Trust" control.

By an act of September 26, 1918, the method of choosing directors was

changed through the repeal of the requirement that each of the three groups of banks should "contain as nearly as may be one-third of the aggregate number of the member banks of the district . . ." and the substitution therefor of the provision that "the Federal Reserve Board shall classify the member banks of the district into three general groups or divisions," without placing any restriction whatever upon the number of banks that should be placed in each group. This looked like a step away from the original democratic principle of one bank one vote—a principle followed in the elections of most of the clearing house associations. It clearly increased the power of the Federal Reserve Board over the election of Class A and Class B directors.

How far the original plan of grouping the member banks, for purposes of electing directors, into three approximately equal groups of banks has since been departed from by the Federal Reserve Board in exercising the authority conferred by the above-mentioned amendment, will be seen from the following figures. A week after the amendment had been passed the Board made a reclassification of member banks for the twelve districts, which, when taken by totals for all districts, placed 515 banks or 6.4 per cent of the total number (i.e., 8,099) in group I, the large-bank group; 2,384 banks, or 29.4 of the total, in group II, the middle-sized-bank group; and 5,200 banks, or 64.2 per cent of the total, in group III, the small-sized-bank group. According to this rearrangement, therefore, the 515 largest banks in the respective districts could now elect the same number of Class A and Class B directors that the 5,200 smallest banks could elect, or the same number that the 2,700 largest

Lbanks could previously have elected. There may have been good reasons for this great change in the grouping, increasing the power of the large bank at the expense of the smaller, but, so far as I know, the Federal Reserve Board has given little or no publicity to the change itself or to its reasons for making it. The amendment authorizing the change was passed at the Board's request.

MEMBERSHIP

Membership in the Federal Reserve System was limited to commercial banks and trust companies, showing that the System was expected to function in the field of short-time active business operations rather than in the fields of capital and real estate transactions occupied so largely by savings banks, private banks and investment houses. National banks, operating as they did under Federal charters, were expected to play the game according to the new and improved national rules laid down by the Federal Reserve Act. If they were unwilling to accept these rules they were invited to get out of the national system. State banks and trust companies possessing adequate capitals and conforming in their operations to sound banking practices were permitted and encouraged to become members of the Federal Reserve System. The Act clearly contemplated a large membership of state institutions.

CAPITAL AND DIVIDENDS

It was hoped that enough banks would enter the System from each district to assure an adequate capital for each Federal Reserve Bank, but among bankers the opposition to the Glass-Owen bill had been so pronounced and widespread, and threats had been so frequently expressed by

officials of national banks that they would give up their Federal charters and reorganize as state institutions if the Glass-Owen bill in anything like its existing form should become a law, that the framers of the Act undertook to assure the establishment of a Federal Reserve Bank in each district by providing that, if sufficient banks should not join the System, the capital could be subscribed by the public or by the government itself.

In the early stages of the bill through Congress the required stock subscription was based upon the capital of the member banks, but the basis was later changed to capital and surplus, the percentage required being reduced. The distinction between a bank's capital and its surplus is at best a rather arbitrary one and is essentially legal, rather than economic. Had the basis been capital alone, a bank desiring to keep its subscription to Federal Reserve Bank stock low, would have been encouraged to increase its surplus at the expense of its capital.

DISTRIBUTION OF PROFITS

The original Act provided that from the net earnings an annual dividend of six per cent, which should be cumulative, should be paid on the paid-in capital stock; that, of the balance of the net earnings, one-half should be paid into a surplus fund until the surplus should amount to 40 per cent of the *paid-in* capital, and that the remainder should be paid to the United States as a franchise tax. An amendment of March 3, 1919, provided that after the six per cent dividend is paid the whole of the net earnings of each bank shall be carried to surplus until the surplus shall amount to 100 per cent of the *subscribed* capital, and that, after this 100 per cent surplus shall have been accumulated, 10 per cent of the net

earnings, above the dividend charges, shall be transferred to surplus indefinitely. A bank withdrawing from the System receives back the capital it has paid in and any accumulated dividends but cannot take one cent of the accumulated surplus. The two hundred odd millions of surplus already accumulated by the twelve Banks would therefore go to the government should the Banks go out of business.

Net earnings paid to the United States by the Federal Reserve Banks, the law provided, "shall in the discretion of the Secretary, be used to supplement the gold reserve held against outstanding United States notes, or shall be applied to the reduction of the outstanding bonded indebtedness of the United States. . . ."

The significance of these provisions concerning earnings, briefly stated, is apparently as follows: The Federal Reserve Banks are to be administered with primary reference to the public service, and member banks are to receive their returns chiefly in the services rendered them directly by the Federal Reserve Banks and in the safer and more stable financial conditions throughout the country which the Federal Reserve System creates. The desire for large cash profits is to have no influence in determining the policies of the Federal Reserve Banks. Their actuating motives must be found in service to the member banks and, through the banks, to the public. If, incidentally, large profits are realized they must go to the government.

To date the profits of the twelve Federal Reserve Banks have been so large, chiefly as the result of war and post-war demands upon the System, that it seems improbable that the call for the other 3 per cent of stock subscription authorized by the Act will ever be made. On November 9,

1921, the paid-in capital and accumulated surplus of the twelve Federal Reserve Banks was \$317,000,000, an amount \$28,000,000 greater than 6 per cent of the capital and surplus of all the member banks plus 40 per cent, namely, the maximum capital and surplus contemplated by the Act of 1913 for the twelve Federal Reserve Banks.

When the Federal Reserve Act was passed there was a widespread hope among economists and bankers that any profits accruing to the government through this franchise tax would be used for the first of the two purposes authorized, i.e., "to supplement the gold reserve held against outstanding United States notes." The increase of this reserve by slightly less than \$200,000,000 would have been sufficient to transform all of our greenbacks into gold certificates and thus retire from circulation one of the most undesirable elements in our motley collection of paper money. Of the \$117,000,000 so far either paid to the government in franchise taxes by the twelve Banks or due and set aside by them for the government, all has been absorbed by the war debt and not a dollar has gone into the building up of the reserve against greenbacks.

FUNCTIONS OF FEDERAL RESERVE BANKS

As stated at the beginning, the limits of space will permit only a few words concerning the purposes of the Act as revealed in the functions assigned the Federal Reserve Banks. These functions are clearly defined in the Act and their general character is understood by all students of the System. They are, moreover, broadly speaking, the functions performed by central banks throughout the world. Chief among them are the following:

(1) The centralization and mobilization of bank reserves;

(2) The rendering more elastic of bank credit, both bank notes and bank deposits;

(3) The creation of a more efficient and cheaper clearing and collection system for checks;

(4) The improvement of facilities for financing our import and export trade at home, and finally

(5) The providing of a satisfactory depository and fiscal agency for the Federal government.

Reserves are centralized through the requirement that legal reserves of member banks shall consist exclusively of deposits in their respective Federal Reserve Banks. These reserves are largely centralized in the Gold Settlement Fund and the Federal Reserve Agents' Fund, and are rendered mobile through interbank discounts and through open market operations.

Elasticity of circulating credit is obtained through the machinery of rediscounting commercial paper, through direct collateral loans—machinery common to most central banks—and through open-market operations. The old-time stone-wall reserve requirements are done away with, and there is no limit below which a legal reserve cannot now be reduced *provided* the bank concerned is willing to pay the price. An elastic asset bank-note currency is superimposed upon the old rigid bank-note currency, although out of deference to the opinions of certain persons of high political influence in 1913, who believed that the issuance of bank notes was an exercise of the essentially government function of issuing money, the Federal Reserve notes are made to emanate from the government and made subject to a government in-

terest charge, at the discretion of the Federal Reserve Board—a charge that has never been imposed. The Federal Reserve notes therefore, in form, have some of the qualities of government paper money, but, in substance, are almost a pure asset currency possessing a government guaranty, against which contingency the government has made no provision whatever.

When the Glass-Owen bill was before Congress the provisions looking toward the parring of checks through the establishment of an extensive clearing and collection system were widely opposed by bankers, who claimed that they were the work of theorists and visionaries. The subsequent development of this clearing and collection system has gone beyond the dreams of the most visionary of the visionaries of 1913.

The extension of the use of bank acceptances and of dollar exchange in the United States, and the development of a broad and active discount market for paper arising out of foreign trade—objects clearly sought by the Federal Reserve Act—were substantially attained much more rapidly than had been expected, as a result of the dominant position in the world's trade and finance which New York obtained, temporarily at least, through the War.

The movement in the direction of making the Federal Reserve Banks the exclusive depositories of Federal government funds was checked by our entrance into the War; but, as a result of the discontinuance of the subtreasuries, the fiscal agency functions of the Federal Reserve System which were enormously enlarged by the War, have since been still further extended.

Political Pressure and the Future of the Federal Reserve System*

By PAUL M. WARBURG

Member of the Federal Reserve Board 1914-1918

FROM the earliest beginning it was obvious that, in order to be successful, any attempt at a thorough banking reform in the United States would have to approach the subject from two angles: one, from the point of view of pure banking technique, the other, from the point of view of administration. The problem was to devise a plan carrying conviction not only as a sound and effective piece of banking machinery, but also as offering reliable safeguards against any possibility of the control of the system's passing into the hands of either "big business" or the politician. If legislation was to be secured and, indeed, if the future of the system was to be protected, a formula had to be found under which these two elements would be called upon to balance one another. If the new banking system was to remain safe and sound, its administration had to be shielded from the danger of becoming subservient either to business or to politics, and, conversely, safeguards had to be provided against business' or politics' becoming subservient to the new banking system.

From the bare point of view of efficiency and economy, one central bank with a purely business management would undoubtedly have yielded the best results, but from the point of view of what was required in the larger interest of the country, of what was essential in order to prevent the system, once established, from becoming the

target of ambitious business men or scheming politicians, maximum efficiency had to be subordinated to maximum safety.

The writer's original plan, "A United Reserve Bank of the United States," proceeded on these lines; so did, subsequently, the Aldrich "National Reserve Association of the United States" and, later on, the Federal Reserve plan. Each of these schemes followed the lines of merging the country's dead gold reserves into one live organization; of building upon this more or less centralized gold an elastic note issue; and having thus centralized the scattered forces of the nation into one organic structure, of once more decentralizing its administration and organization, and circumscribing it far enough to prevent the dangers of abused power and of one-sided control.

The advocates of a pure central bank had to reconcile themselves to a lower banking ideal by surrendering to the political requirements of the case. Conversely, the sworn antagonists of a central banking system had to surrender their political ideal, the gospel of decentralized banking, in order to provide a system that would be workable as a banking proposition.

Thus the Democrats, starting with the thought of a large number of disconnected reserve banks, ended in tying them together into a central banking system, in its essential features not very dissimilar (though differing in many important details) from the Aldrich Plan, which had started at the other end.

Disregarding the question of which

* Adequate treatment of this subject would require more time and study than was possible under the circumstances and more space than could be given in this volume. P. M. W.

side made the largest share of valuable contributions and mistakes and, dealing with the topic simply from the point of view of sincere appreciation of the banking system which we enjoy today, the problem now before us is to examine what remains to be done in order to promote and protect its future.

A study of four years from within the System and of almost four years from without, leads me to think that its gravest danger lies in the gradual ascendancy of political influence.

The Federal Reserve System, as such, is based upon the perfectly sound and happy theory of placing the actual management of the Federal Reserve Banks in the hands of boards of directors, the majority of whom are appointed by business men. The direction of the System as a whole, on the other hand, its policies and its supervision, are vested in the Federal Reserve Board, which consists of five members appointed by the President and confirmed by the Senate. These members are appointed for ten-year terms and the Governor and Vice-Governor are designated by the President and serve at his pleasure. The Secretary of the Treasury and the Comptroller of the Currency are members *ex officio*. The Secretary of the Treasury is Chairman of the Board.

Among the many Presidents, Secretaries of the Treasury, Senators, Congressmen and Comptrollers of the Currency that I have known, there have been good ones and bad ones, some admirably strong and some lamentably weak. And therein lies the danger for the future: As long as there are two *ex-officio* members of the Board, who are constantly subjected to political pressure; so long as every President has the power to play favorites with Board members by promoting them to the positions of Governor or Vice-Governor or demoting them at will; so long as one

or two members may be vulnerable because their terms are about to expire, it can readily be seen how easy, and therefore tempting, it is for the political members to assert their influence, and how unpleasant and unenviable may be the lot of members struggling to preserve their independence and self-respect.

When members of the Board are hounded by senators or congressmen because they do not think it proper to flood the country with easy money, just because elections are coming; or when they refuse to believe that excessive fluctuations in foreign exchanges during the War were due to Wall Street speculation and could be regulated or controlled by the Federal Reserve Board; or when they are viciously criticised because they will not accede to the belief that fake easy money can counteract the effects of overproduction of important staples when a period of reduced world consumption is encountered—it is, at best, not easy to find men of importance willing to make the material sacrifices involved in service of the Federal Reserve Board.

It will become increasingly hopeless, however, to secure such men if some of the defects in the organization of the Board as above described are not promptly removed and the dignity and independence of the office of member are not enhanced. To state it briefly: The Governor and Vice-Governor ought to be elected by the Board itself; or they should serve in rotation, and the office of the Secretary of the Board might, in the latter case, be developed into that of something like a “general manager,” or the Governor ought to be designated for the full term of his membership. The Governor ought to be the Chairman of the Board and, instead of the Secretary of the Treasury, who hardly ever has the time to attend Board meetings, the Assistant

Secretary of the Treasury ought to become an ex-officio member of the Board. There should be an additional member of the Board, who should exercise the main functions now resting in the Comptroller of the Currency. The vast powers now vested in the Comptroller are the remnants of an undemocratic, antiquated and dangerous system. Moreover, the present condition has led in the past to costly delays, duplication of work, inefficiency and unbearable irritation. Examinations and rulings concerning banking operations ought to be made by one body and not by two, if a prompt and efficient administration is to be assured. In the past, Board members often have had to wait upon the good graces—or bad graces—of the Comptroller before any headway could be made in important matters. The situation bristled with humiliating and distasteful incidents. It seems ridiculous that the Board should have appeared before Congress with one set of recommendations and the Comptroller, a Board member, with another, often entirely in conflict with the policies of the Board.

Unless the Federal Reserve Board is raised to a position of the greatest possible dignity and men of real strength, independence and knowledge are found to serve upon it in the future, it is to be feared that the System will become the football of politics. A splendid instrument of protection might thus become an element of dangerous disturbance.

This danger is all the more real because of the unfortunate action of the Organization Committee in establishing twelve Federal Reserve Banks instead of beginning with eight, as the Federal Reserve Act had permitted them to do.

The larger the number of Federal Reserve Banks and the greater the consequent decentralization, the more

important becomes the Federal Reserve Board as the sole organic link connecting them all. The weaker the single districts and the more disconnected they are, the more difficult, and at times desperate, becomes the task of the Federal Reserve Board to coax or club these autonomous units into prompt and effective coöperation. The Board was planned to be preëminently a supervisory and directive body; excessive decentralization was bound to force it more and more into the exercise of administrative functions, which—for men located at Washington, unable to be in personal close touch with actual business conditions and operations in twelve separate and remote districts—naturally became more bewildering and troublesome than was advisable or necessary.

The fundamental thought of reserve banking is that the idle money of one industry or section should become available for the seasonal requirements of another. Federal Reserve Districts, therefore, which are "all cotton" or "all grain" were from the beginning doomed to fail as independent districts; seasonal requirements were bound to exhaust their loaning power too rapidly. While they could secure assistance through the somewhat clumsy procedure of rediscounting with other Federal Reserve Banks under the direction of the Federal Reserve Board, they generally would be inclined to hesitate to resort to these rediscount operations, inasmuch as they would tend to emphasize the organic weakness or temporary exhaustion of their districts. Unfortunately the Organization Committee disregarded this fundamental principle and the districts of St. Louis, for instance, and its surrounding Federal Reserve districts were delineated with about the same regard for economic questions as were Austria and her so-called Succession

States at Versailles. Owing to this absence of a sufficient diversification of interests and minds, local banking factions and self-centered provincialism have from the beginning played too large a part in framing the boards of directors, the managements and the policies of many of the twelve Federal Reserve Banks, with little understanding of the national questions involved. Much bitter feeling and criticism were caused, particularly in the agricultural sections, by unnecessary and irritating mistakes made in fixing interest charges or in applying ill-advised methods of administration. Whatever anticipatory words or warning in this regard were given to Congress and later to the Organization Committee, unfortunately, have proved only too true, including the prophecy that an excessive number of Federal Reserve Banks would prevent the establishment of large financial centers outside of New York, where important open discount markets could develop.

It is a great loss for the country that at the time of the formulation of the law and the establishment of the System it was impossible to convince the sections involved that a Federal Reserve branch bank could convey the same benefit as a Federal Reserve Bank; indeed, that as a branch of a larger district a region would be better served than as a self-contained district. Minneapolis, as a branch of Chicago, would have been as well provided for as Detroit, but it would enjoy a rate of 5 per cent instead of its present 5½ per cent rate. The same holds good for Dallas and Atlanta.

As stated before, the weaker the Federal Reserve Banks, the stronger must be the Federal Reserve Board. This is all the more essential because the Board appoints the C class directors. The latter often constitute very important elements of safety and

must be appointed, political pressure notwithstanding, solely from the point of view of securing the men best qualified for the protection of the Banks. Finally, the future of the local management of all banks, in short, the morale of the entire System, will depend upon the character of the Federal Reserve Board.

If the Federal Reserve System was able to accomplish its phenomenal development and if it could respond so splendidly to the trying demands of the war, and of the post-war periods, it was largely due to the devotion, vision and ability of members of the Federal Reserve Board and of some of the Federal Reserve agents and governors of Federal Reserve Banks, who perfected and developed the System into the extraordinary banking organization it is today. Strong and exceptional men made themselves the leaders of the rest. Without them, the System would have failed. Such men today are still serving the System, though from the material point of view many of them could do vastly better for themselves in other fields. If politics should creep into the Board, these men will gradually drop out, and from top to bottom the System will deteriorate. If the administration of the Federal Reserve System, in Washington and in the banks, should then fall into the hands of weak and incapable men who only see "fat jobs" in the positions, instead of those who today devote themselves to the work at a personal sacrifice because they see in it an opportunity for public service, there are dark days ahead for the country.

Government must exercise an effective control over business in its administration of the Federal Reserve Banks; but this control must be exerted through a Federal Reserve Board comprising men of the highest integrity and efficiency—men who do not seek the

job and would not hesitate to surrender it, if either business or politics should interfere with the independent exercise of their duties for the best advantage of the country as a whole.

If that is to be achieved, and the future of the Federal Reserve System is to be assured, the people themselves must take a hand. They must never fail to rally to the support of these faithful servants when unfairly attacked, and they must not lose any opportunity of showing them that their services are appreciated. If the people do not prove that they honor their leaders and stand by them loyally, what incentive is there for these leaders to hold out?

In a similar manner, Congress must feel that whoever dares to encroach upon the independence of the Federal Reserve System attacks the most sacred treasure of the people. In Washington I came to know many upright men of the very highest type; nevertheless a large number of our political

leaders might prefer that the Federal Reserve System be subservient rather than independent. They want open doors for patronage and a ready compliance with the wishes of their constituents.

Protection for the Federal Reserve System must, therefore, not be expected from Washington, unless it is possible to arouse and strengthen the small number of distinguished men in the Administration, and in Congress, who would understand the danger and would fight to ward it off. They will win if the country makes Congress understand that its heart is in it. If the people cease to exercise vigilance, if ever they relax in their insistence upon the integrity of their banking system, it may develop, as it did before, from the greatest blessing into the gravest menace. A Federal Reserve System turned into a political octopus, a national Tammany Hall, would infest not only the counting houses but every farm and hovel in the country.

Early Functioning of the Federal Reserve System

By ARTHUR REYNOLDS

President, Continental and Commercial National Bank of Chicago

ON October 26, 1914, the Secretary of the Treasury sent a message to the twelve Federal Reserve Banks, then organizing, instructing them to begin definite operations on November 16, 1914. Great haste was made to secure adequate quarters and a working staff. One-sixth of the capital stock subscriptions were called on November 2, 1914, and on the sixteenth of November the Banks formally opened for business.

"Regulation in ordinary times, as well as protection in extraordinary times" was the principle laid down by

the Federal Reserve Board in its first report after two months of operation, for defining the general scope of activities of the Federal Reserve Banks. There being no extraordinary times to call for the protective function as set forth in the above definition of policy, the operation of the Federal Reserve System during the first two years was confined largely to efforts, first, to "unify the banking system of the country" by seeking new members among the ranks of the state banks; second, to endeavor to regulate interest rates and equalize the demand for

money by the purchase of bills and acceptances in the open market, and third, to establish a par collection system and the clearance of all checks on member banks.

The men charged with the operation of the Federal Reserve System, upon its inception, promptly sought to induce the banks of the country to make full use of its facilities. They were influenced, undoubtedly, by the feeling on their part that it was necessary to keep employed such funds as were entrusted to them in order to pay expenses and to earn dividends upon the capital stock. They felt that member banks should rediscount with the Reserve Banks, and by one means and another endeavored to accomplish this. But in the early history of the System it was destined to meet with no such ready response. The old banking practice of the country had its basis in too many years of actual habit, and it was but natural that banks generally should be hesitant and cautious in making radical changes in their methods; indeed, a great many of them felt that the Federal Reserve Banks, if supported too generously, would ultimately encroach upon and usurp some of the functions of existing banks. They were loath, therefore, to go farther than the mere subscription of capital. It was inevitable that a great many bankers in the country should look upon the System as a government undertaking and fear that transactions with it would be involved in "red tape." They feared also that it would be influenced by politics.

PREJUDICE AGAINST REDISCOUNTING

Coincident with this, and one of the greatest difficulties in the way of those who were ambitious for the quick acceptance of the System, was the long-time prejudice of bankers against disclosing their borrowings to the public.

They had been educated to believe that deposits were the indication of strength, and that borrowed money was a sign of weakness. Any rediscounts or bills payable which they might lodge with the Federal Reserve Banks would appear in their statements, and since, in many instances, they could obtain credit from their city correspondents through methods which did not involve the direct obligation of their banks, and, therefore, did not appear as borrowed money, they were quite content to utilize the credit facilities of those city correspondents. It must be remembered that at this time there were no unusual conditions confronting the country; rates were low and money was easily obtainable. Bankers outside of reserve centers had, over a considerable period of years, built up their relationships with reserve city and central reserve city correspondents. Those who had occasion to borrow for seasonal requirements were intimately acquainted with the city banks which had met their needs. Those banks which had for many years maintained balances with other banks felt that they had a cumulative asset of which they could avail themselves should the occasion arise. There was mutual understanding between correspondents, while the Reserve System was an untried departure.

It will also be remembered that the Federal Reserve Act did not make provision for the turning of all reserve funds over to the Reserve Banks. The change was gradual. Old relations between banks were, therefore, not interrupted.

All of these things militated against the fullest possible functioning of the System in its early stages, and such rediscounts and bills payable as were lodged with the Federal Reserve Banks were largely in the nature of "courtesy transactions" on the part of friendly

bankers who wished to help educate the banking fraternity to use the Federal Reserve facilities.

"COURTESY TRANSACTIONS"

Comment by the Ninth District Reserve Bank in its report for the year 1915 is illustrative of the general condition confronting all of the Reserve Banks at that time:

During the latter half of November and the month of December, 1914, such rediscounts as were afforded members were largely courtesy transactions, the greater part representing the efforts of larger banks to acquaint the public with the new Federal Reserve currency. After January 1, 1915 . . . loans dropped to the lowest ebb in many years. Rates on commercial paper took new low levels. . . .

The one great complaint during this time was the non-payment of interest upon balances carried at the Reserve Banks. In the report containing the preceding comment of the Minneapolis bank, Pierre Jay, Federal Reserve agent at New York City, said:

. . . it is among the country banks as a class that most of the apathy and hostility to the Federal Reserve System which still persists is found. Their opportunities and earnings are relatively small and they must figure closely to live. They feel the loss of interest on reserve deposits; the absence, as yet, of dividends on their capital contributions, and the prospective loss or decrease of the exchange they generally charge on remitting for checks drawn upon them.

The institution of the par collection system met with great disapproval from many banks in the smaller communities where the earnings derived from exchange charges had for many years constituted a comparatively substantial part of the total earnings. Some banks sought to surrender their national bank charters and incorporate as state banks. This was only the forerunner of the more serious opposi-

tion encountered when the Reserve Banks undertook to make it compulsory upon all banks to accept their own items at par.

THE STATE BANK PROBLEM

The early attempts to obtain new members from the ranks of the state banks were bitterly opposed in many quarters. Legislation was even resorted to in combating the advances of representatives of the Federal Reserve Banks in this direction. In its second annual report on December 31, 1915, the Federal Reserve Board observed:

It is an unfortunate fact that, in some of the states, reserve requirements for state banks and trust companies have been materially lowered by legislative enactment since the adoption of the Federal Reserve Act. . . . This is an element of danger in our banking system, because the weakening of the reserves of the state banks and trust companies makes them more vulnerable in times of emergency. . . . It would be deplorable were feelings of state or local pride to lead any of the states into competition with the Federal Reserve System such as would prompt them to lower their own banking standards or reserve requirements with a view of enabling or inducing state banks to refrain from taking membership therein. The Board is satisfied that state banks gain in safety and that states sacrifice none of their prerogatives or powers when such banks become members of the Federal Reserve System, and therefore, expresses the hope that no seeming divergence of interest will be permitted to impede the establishment of higher standards of banking.

Every means was employed to make memberships in the System attractive to state banks and later amendments to the law aided in inducing them to join.

EARNING ASSETS BEFORE AND AFTER THE WAR

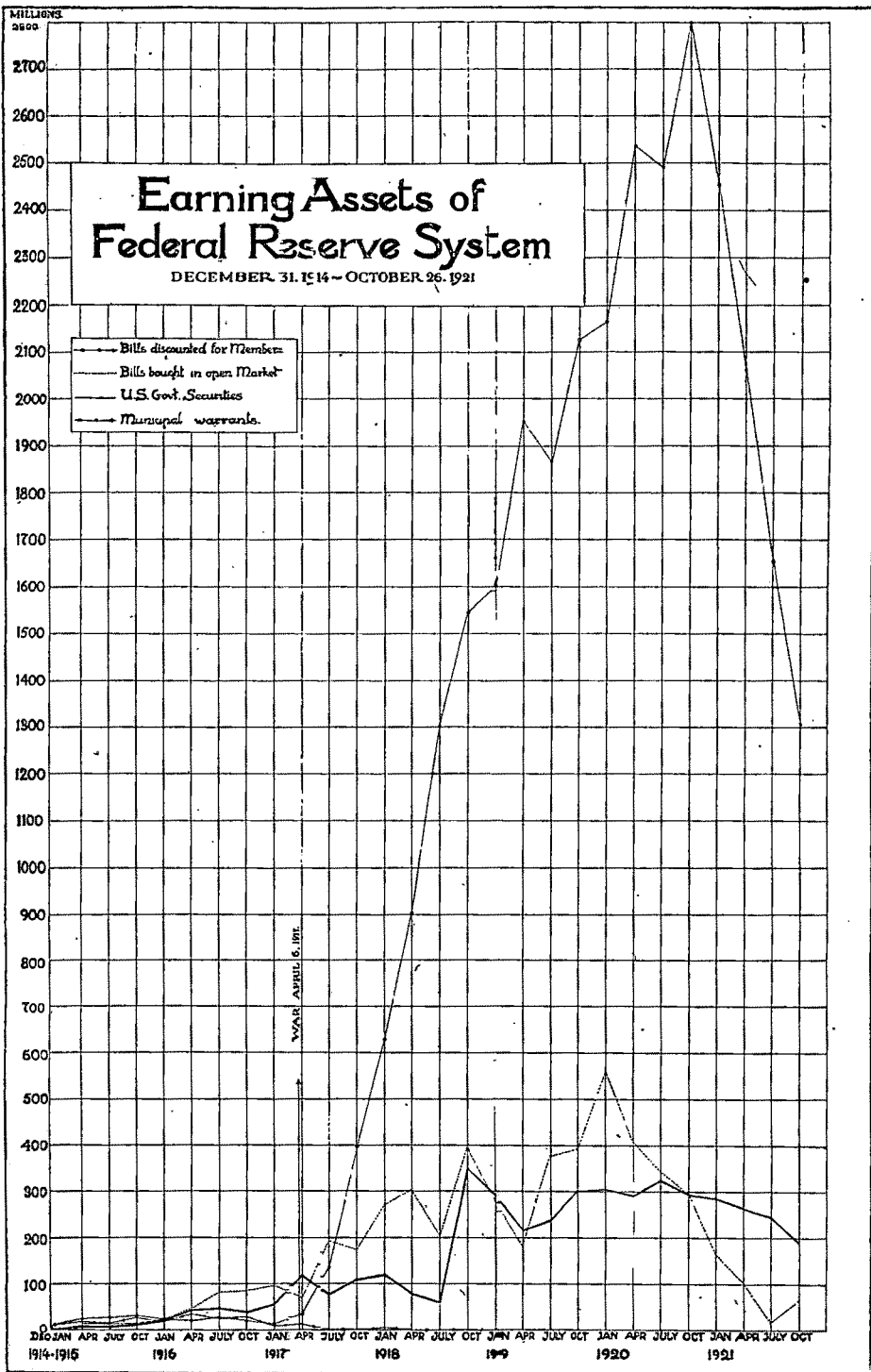
Failure to secure applications for rediscounts to employ more than a

small part of the funds of the System, the Reserve Banks combined, from the date of opening to January 1st, 1921, caused the Reserve Banks to invest in government bonds, acceptances and municipal warrants. A careful study gives a concrete picture of the early functioning of the System in contrast to its operations after the United States entered the War.

EARNING ASSETS OF THE FEDERAL RESERVE SYSTEM

DECEMBER 31, 1914-OCTOBER 26, 1921

Date	Bills discounted for members	Bills bought in open market	U. S. government securities	Municipal warrants
1914				
December 31.....	9,909,000	....	205,000	734,000
1915				
January 29.....	13,955,000	....	2,015,000	11,165,000
April 30.....	22,774,000	13,812,000	6,813,000	18,656,000
July 30.....	29,102,000	11,625,000	7,923,000	16,107,000
October 29.....	30,448,000	13,619,000	10,505,000	25,014,000
1916				
January 28.....	26,901,000	26,314,000	21,372,000	20,602,000
April 28.....	21,448,000	47,585,000	45,841,000	36,933,000
July 28.....	27,594,000	83,454,000	48,656,000	27,220,000
October 27.....	21,131,000	86,085,000	40,469,000	29,890,000
1917				
January 26.....	15,711,000	97,697,000	55,769,000	12,249,000
April 27.....	35,043,000	71,400,000	117,813,000	14,999,000
July 27.....	138,459,000	195,097,000	76,953,000	1,469,000
October 26.....	397,094,000	177,590,000	110,042,000	233,000
1918				
January 25.....	627,632,000	273,912,000	123,194,000	4,902,000
April 26.....	901,743,000	302,344,000	78,853,000	2,722,000
July 26.....	1,302,151,000	205,274,000	57,012,000	103,000
October 25.....	1,546,164,000	398,623,000	350,311,000	24,000
1919				
January 31.....	1,601,128,000	281,293,000	294,784,000	4,000
April 25.....	1,950,412,000	185,822,000	218,636,000	....
July 25.....	1,867,602,000	375,556,000	239,400,000	....
October 31.....	2,128,547,000	394,355,000	301,254,000	....
1920				
January 30.....	2,174,357,000	561,313,000	303,521,000	....
April 30.....	2,535,071,000	407,247,000	293,514,000	....
July 30.....	2,491,530,000	345,305,000	325,380,000	....
October 29.....	2,801,297,000	298,375,000	296,371,000	....
1921				
January 28.....	2,456,475,000	165,058,000	287,320,000	....
April 27.....	2,063,739,000	103,609,000	267,792,000	....
July 27.....	1,650,496,000	19,424,000	249,488,000	....
October 26.....	1,308,749,000	62,326,000	190,946,000	....



The chart of the earning assets of the System demonstrates clearly that once the exigencies of the war period arose, there was no hesitancy upon the part of member banks to make heavy demands upon the facilities of the reserve banks. Indeed, as the momentum gained force, many bankers in their eager rush to meet the requirements of their customers lost sight of the earlier scruples concerning borrowed money and the pendulum swung to the other extreme. Instead of seeking rediscunts the officials of the System found themselves striving to conserve the financial resources of the country.

The general impression prevails that the War caused a development of the Federal Reserve Banks during the seven years of their operation that probably would not have occurred in many times that number of years under other circumstances. Study of the early

functioning of the System bears out that assumption. The early operations of the banks also call to mind the point that they were less far-reaching in their influence. Business getting efforts are forgot or nearly forgot. But what was, may, perhaps, merely pre-sage what is to come. Under stable conditions, the Reserve Banks may make smaller profits, but they will not serve a less useful purpose. Commercial banking must respond to and reflect the activities of business. In times of great activity, whether seasonal or cyclical, the Reserve Banks will be called upon to meet a corresponding demand. In the usual process of business they will have recourse to open-market operations. Through these operations they may exert a great and important influence on the commercial banks, on interest rates and on business activity.

The Federal Reserve System, State Banks and Par Collections

By PIERRE JAY

Chairman and Federal Reserve Agent, Federal Reserve Bank of New York

FULL accomplishment of the purpose of the Federal Reserve Act, to provide a means whereby the strength and resources of the numerous independent banks of the United States would be made effective for concerted or coöperative action for the protection of the banking system and the service of the nation's commerce, industry and agriculture, depended upon membership of a very considerable proportion of the banks of the country. The provision of the Act making membership compulsory for national banks, brought at once into the System about 7,600 national banks with capital and surplus of \$1,788,-

000,000 and total resources of \$11,-492,000,000, thus giving a membership at the outset comprising 42.6 per cent of the total banking resources of the country. But the provision for the admission of state institutions was merely to the effect that they might, upon application, be permitted to become members, subject to regulations of the Federal Reserve Board, and should then have the rights and privileges of other member banks.

STATE INSTITUTIONS SLOW TO JOIN

Contrary to general expectation, the problem of state bank membership was found complicated. Most of the state

institutions were either passive or opposed to the plan of the Federal Reserve System. At any rate, they were not disposed to seek membership therein. The number of such members at the close of 1916 was thirty-seven, of which only seven had a capital and surplus of over \$1,000,000. In 1917, however, an amendment to the Act gave the state institutions assurance by statute, instead of by mere regulation of the Federal Reserve Board, that as members they might continue to carry on their banking business in substantially the same manner as they had previously done. It also gave them the definite right to withdraw from the System upon six months' notice.

Coincident with the legislative removal of obstacles to membership, the entrance of the United States into the World War gave a new and very strong impetus toward membership. The necessity of strengthening the banking system of the country to the maximum degree possible, in order to meet the strain of war financing, led President Wilson in the autumn of 1917 to make a strong appeal to state banking institutions to join the Federal Reserve System. The officers of Federal Reserve Banks, pursuant to what they believed to be their duty in the circumstances, carried the appeal to the individual institutions, without, however, bringing pressure upon them to join. Many of the more important ones responded and during the fall of 1917 and the first half of 1918, a considerable number of state institutions throughout the country became members. The movement was particularly noteworthy with respect to the aggregate of resources which thus augmented the strength of the System. The major portion of the large institutions in New York City entered the System promptly, and the close of the year

1917 found the System with a state bank and trust company membership of 250, having aggregate capital and surplus of \$520,000,000, and aggregate resources of about \$5,000,000,000. At the end of 1918, 936 state institutions were members with total resources of over \$7,000,000,000.

MEMBERSHIP SHOWS CONTINUED INCREASE SINCE THE WAR

With the end of the War naturally came a slowing down of the efforts of the Reserve Banks to convince state institutions of the importance of taking membership in the Federal Reserve System, and during the past year such efforts have been practically discontinued. But there has been, nevertheless, a continuous and substantial movement of state institutions into the System. The laws of many states contained provisions concerning reserves, character of investments or other vital matters which have hindered or prevented institutions in those states from taking membership in the System, and, as these obstacles have from time to time been removed, more and more state institutions have taken advantage of the opportunity to join. Many states, for example, have now passed laws providing that a state institution, becoming a member of the Federal Reserve System, need keep only the legal reserves required by the Federal Reserve Act. The influence of this factor is strikingly illustrated in California where 61 institutions with total resources of \$1,110,000,000 have become members in the eighteen months following the amendment of the state law in respect to reserves to be carried by member banks.

PRESENT MEMBERSHIP OF STATE INSTITUTIONS

Some of the state institutions which became members during the war

period, did so with the intention of withdrawing at the end of the War, but their experience as members was evidently such that they did not deem it necessary to carry out this intention, for up to the present time only 37 with resources of \$34,500,000 have withdrawn from the System. On the other hand, the number of such members has steadily increased and now amounts to 1,625, with total resources of \$9,959,000,000, giving to the System a membership which now represents, it is estimated, about 69 per cent of the commercial banking resources of the country. Approximately 9,000 state institutions with aggregate resources of some \$9,000,000,000, not now members, are eligible for membership, from which it appears that 53 per cent of the resources and 15 per cent of the numbers of the eligible state institutions are now in the System. The distribution of state bank membership by districts, is as follows:

DISTRIBUTION OF STATE BANK MEMBERSHIP BY DISTRICTS

<i>District</i>	<i>Number</i>	<i>Capital</i>	<i>Surplus</i> (<i>In thousands of dollars</i>)	<i>Total Resources</i>
1. Boston	41	36,411	38,951	709,890
2. New York	134	187,255	190,561	3,903,409
3. Philadelphia	48	25,821	48,738	390,902
4. Cleveland	113	64,436	79,344	1,041,392
5. Richmond	62	15,160	9,798	152,271
6. Atlanta	116	27,025	17,271	323,928
7. Chicago	364	101,012	85,092	1,753,034
8. St. Louis	102	30,203	22,081	400,809
9. Minneapolis	133	10,747	3,994	126,369
10. Kansas City	60	13,335	4,272	178,032
11. Dallas	205	16,500	6,598	123,288
12. San Francisco	217	57,625	25,218	900,811
¹ Total	1,595	585,530	531,918	10,009,135

¹ Latest available itemized figures.

ATTITUDE OF NON-MEMBER INSTITUTIONS

Banking is essentially one of the most conservative of callings, and it is not surprising that there are many state institutions which have not as yet

entered the Federal Reserve System and whose not having done so may be ascribed probably to two main causes:

1. The belief that membership in the System involves burdens or expense disproportionate to the advantages received in return, some of which, such as the avoidance of the old-fashioned money panic and the stabilization of banking conditions, they enjoy without membership. The fact that the Federal Reserve Banks do not pay interest on deposits whereas their city correspondents and reserve agents do pay interest on deposits is one of the apparent expenses which they fear to assume.

2. Opposition to the plan of par check collection which the System has established and developed.

EXPERIENCE OF MEMBER INSTITUTIONS

Most members of the System are now convinced that membership does not involve a burden or expense to a member bank, but, on the contrary, enables it to conduct its business in a

more economical and efficient manner, entirely irrespective of the advantage of the rediscount facilities. The loss of interest is offset by the reduction in the amount of reserve which member banks were required to carry. For example, a so-called country bank

under the National Bank Act formerly carried a reserve against both demand and time deposits of 15 per cent, of which 9 per cent might be on deposit with approved reserve agents, and at least 6 per cent must be held as cash in vault. Assuming deposits of \$1,000,000, all payable on demand, the bank would carry in vault at least \$60,000, upon which it would earn nothing, and with correspondents, \$90,000 upon which it would probably receive interest at 2 per cent, or \$1,800 a year. The Federal Reserve Act reduced the bank's reserve requirement to 12 per cent, or \$120,000 on which it would receive no interest, but which would give it the opportunity to loan the \$30,000 released, say at 6 per cent, which would yield \$1,800 and thus compensate for elimination of interest on the reserve balance.

In 1917 the required reserve against demand deposits was reduced to 7 per cent, all of which was to be carried with the Reserve Bank and with no fixed requirement for vault reserve. Experience shows that this has permitted an average reduction in country bank vault cash of around 4 per cent, which, together with the reduction of the required reserve against time deposits to 3 per cent, made still greater the compensating advantage due to lowered reserves. Most of the states have passed laws permitting state institutions becoming members to take advantage of these reduced requirements.

With the certainty of being able to obtain cash by rediscounting at the Federal Reserve Bank, member banks have felt justified in investing their funds more closely, carrying as their emergency reserve, bankers' acceptances, commercial paper or government obligations which could be realized upon at any time, and thus increasing their earning power.

The opposition to the System on

account of the establishment of its par collection plan will be discussed incidentally in the following topic. But it may be said that members have found that the use of the check collection facilities of the System has reduced the length of time required for the collection of checks, and enabled them to close out many accounts formerly required, thus further increasing the proportion of their assets which may be invested.

CHECK COLLECTION BEFORE THE RESERVE SYSTEM

An important feature of banking in the United States is the extent to which the use of bank checks has been developed. They are the most usual means of settlement in all classes of business, from the payment of small household bills to payments for the largest transactions of commerce and finance. The presentation and collection of the myriads of checks arising in the course of daily business, and drawn upon over 30,000 independent banks located in all parts of the country, creates a problem of great magnitude, especially as checks are commonly used to settle accounts not only in the places where they are payable, but are sent to distant points, making necessary the use of the mails for their collection.

Before the establishment of the Federal Reserve System, the collection of checks in this country was accomplished by special arrangements between commercial banks. It was customary for banks in the country and in the smaller cities having checks on out-of-town points, to send all such checks to their city correspondent, which would undertake their collection in consideration of the balances carried by the smaller bank with the city institution. It was customary, also, for the country bank to charge the

amount to its correspondent as soon as the letter was mailed, and to treat it at once as part of its legal reserve, this being permissible under the provisions of the then existing law. The city bank to which the checks were sent, having similar arrangements with many correspondents, was the recipient of a very large volume of checks for collection and inasmuch as it had usually undertaken to collect these checks without charge, it was itself under the necessity of finding a means of collecting them with as little cost as possible. The obvious and simple method of sending the checks direct to the banks upon which they were drawn was not attractive because of the fact that the custom had grown up in many, though not all, sections of the country for the smaller banks which received checks on themselves through the mail, to make a charge for remitting to the sending bank for such checks, the rate of the charge varying with different institutions and running from \$1 per thousand dollars, to as high as \$3.50 per thousand dollars in some cases.

This charge was known as "exchange," and was made on the theory that the bank paying the checks performed a service for the bank from which the checks had been received in paying the latter with a draft on a bank in some large center. The value of this service was based upon the approximate cost of making shipment of currency to make the payment, plus postage and stationery, on the theory that payment of a bank check can be demanded only at the bank's counter, and that if remittance is made to a distant point, an additional service is performed. In order to avoid, so far as possible, the necessity of paying "exchange" for the collection of checks, it was usual for banks receiving checks from their correspondents to send

them on to some other bank for deposit and collection, charging the remittance to the latter's account, and treating it at once as legal reserve. This effort to find a means of getting the check paid without deduction for exchange, led to checks' reaching their place of payment by very circuitous routes with much delay in the time of presentation and collection, and with increased risk of loss to the indorsers of the checks. By this means, also, the same check might be counted as reserve at the same time by several different banks, although as a matter of sound banking principle, it should not have been counted as reserve for any bank until actually collected.

These unsatisfactory check-collection practices, and the fact that the charges made, as well as the loss due to slowness in collection, fell on the commerce and industry of the country, led to action by Congress which, in passing the Federal Reserve Act, included provisions requiring Federal Reserve Banks to receive on deposit at par from member banks or from Federal Reserve Banks, checks or drafts drawn on any of their depositors, and authorizing them to receive for purposes of exchange or collection, checks or drafts payable upon presentation within their districts. The Act also authorized the Federal Reserve Board to require each Federal Reserve Bank to exercise the functions of a clearing house for its member banks.

GROWTH AND ADVANTAGE OF THE PAR COLLECTION SYSTEM

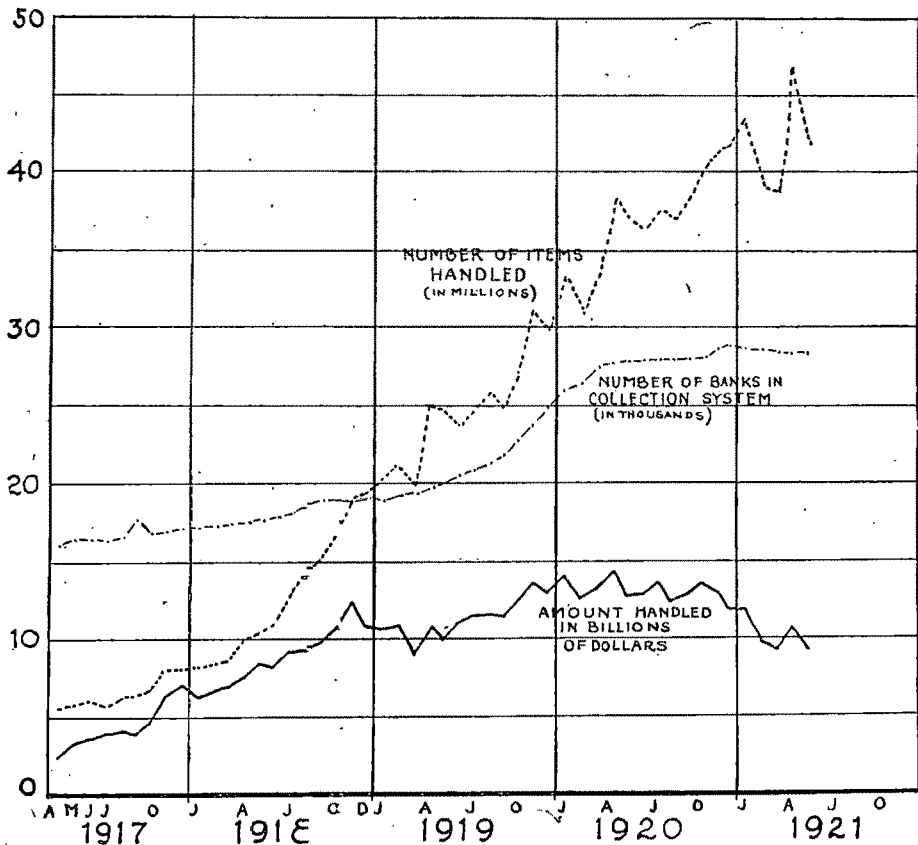
The Federal Reserve Banks did not at once actively engage in the collection of checks under the provisions of the law above referred to, because the development of a comprehensive check-clearing plan presented many difficulties, and it was not until July, 1916,

that active operations were initiated. At that time a plan of operation was adopted which, recognizing that checks are payable at the counter of the paying bank, provided that the Federal Reserve Banks, in forwarding checks to a bank for payment by remittance, would pay the cost of currency shipped in payment for the checks, whenever

tion through the mail equivalent to presentation at the bank's counter.

Operations under this plan have been highly successful, as will be gathered from the following chart showing the number and amount of items handled each month by the Reserve Banks, and the number of banks in the collection system.

GROWTH OF FEDERAL RESERVE COLLECTION SYSTEM
(By units of one month)



the paying bank elected to make payment in that way, and would also under certain conditions, especially for non-member banks, supply necessary postage and stationery, thus eliminating the elements of cost, which would otherwise fall upon the bank making the remittance, and making presenta-

The importance and desirability of the check-collection system which has developed and is now being operated by the Federal Reserve Banks, may be inferred from the extent to which the chart showing the volume of checks handled indicates that these facilities are being availed of by banks

which are members of the Federal Reserve System. They are also being availed of indirectly by non-members. The volume of items handled has grown steadily since the initiation of this method of check collection, until at the present time it may fairly be said that an overwhelming majority of all out-of-town checks handled by banks are collected through the agency of the Federal Reserve System. The Federal Reserve check-collection system has reduced the average time of collection about one-half, by the practice of the Reserve Banks of sending checks direct to the paying bank, if within the same district, or through a Federal Reserve Bank or branch if outside the district.

OPPOSITION TO PAR COLLECTIONS

It is not to be supposed that the system eliminating "exchange" and bringing about the par collection of checks should have developed so generally without encountering serious opposition from banks which had formerly received substantial income from their exchange charges. A committee of the American Bankers Association has from time to time during the past five years been endeavoring to secure legislation from Congress which would permit banks to charge exchange against the Federal Reserve Banks. Not having been successful in this, banks in Georgia, Kentucky and Oregon have brought suits to prevent the Federal Reserve Banks from presenting checks at the counters of state banks and a number of the southern states have passed laws designed to prevent the Federal Reserve Banks from collecting at par checks drawn on state institutions.

COST OF COLLECTING REDUCED

The effect of the development of this efficient system of check collection has

been to obtain for the business interests of the country a much more prompt collection of checks than formerly, reducing the risk of loss through bad checks and reducing the amount of credit which sellers of goods formerly had to extend involuntarily during the very substantial time required to collect checks. There has been, moreover, an important direct reduction in the cost of collecting checks due to the removal of the so-called "exchange" charge, or the charge made by banks for remitting in payment of checks drawn on themselves, so that at the present time a very large proportion of the country's checks are collected without charge. The change which has taken place in the schedule of charges for the collection of checks may be illustrated by the reductions made by the New York Clearing House Association.

Before the passage of the Federal Reserve Act the charges made by New York banks for collecting checks on outside points were discretionary as to less than thirty cities and were fixed at \$1 per \$1,000 for nearby states and \$2.50 per \$1,000 for the more distant states. The rate of charge is now discretionary (which means that in most cases no charge is made) for eleven entire states and the District of Columbia, 25¢ per \$1,000 for one state, 50¢ per \$1,000 for thirteen states and \$1 per thousand for twenty-three states, while twenty-eight important cities in which Federal Reserve Banks or branches are located are collectible at rates lower than those quoted for the remainder of their states.

It should be understood that the present charge made by the New York banks is not an "exchange" charge at all but is made to cover interest on funds, for which credit is given at time of deposit, for the time which will elapse before the items have been actually

collected. The former charge included not only this element but also an amount designed to enable the city bank to pay the deductions of "exchange" made by paying banks elsewhere.

TRANSFERS OF FUNDS

The elimination of seasonal and other variations in the level of domestic exchange between different parts of the country has also been accomplished as a necessary accompaniment to the development of the check-collection system, since in order that each Federal Reserve Bank might freely handle checks on other Federal Reserve districts, it was necessary to provide a means whereby the balances arising between the districts might be settled without the expense of gold or currency shipments. To meet this need there was established in 1915 a Gold Settlement Fund, made up of gold deposited by the twelve Federal Reserve Banks with the United States Treasury, ownership being transferred from one Reserve Bank to another as the need arises to settle obligations between them. The books are kept by the Federal Reserve Board at Washington, and the settlements of all obligations arising among the Federal Reserve Banks are made by book entry, thus obviating the necessity for inter-district shipment of gold. The Gold Settlement Fund has also made collected funds, that is, funds on deposit with banks in any part of the country, readily transferable to any other center without discount, either by use of the check-collection system or if the funds are on deposit with a member bank, by telegraphic transfer through the Federal Reserve Banks, it being the custom of the Reserve Banks to handle these transfers over the intercommunicating private wire and without cost to the member banks concerned.

The importance of the wire transfer facility may be inferred from the following figures, showing telegraphic transfers handled by the New York Reserve Bank during the years 1916-1920:

	<i>Number</i>	<i>Amount</i>
1916.....	2,971	\$485,000,000
1917.....	10,302	6,768,000,000
1918.....	39,099	19,384,000,000
1919.....	82,321	18,245,000,000
1920.....	147,302	17,022,000,000

The settlement of obligations between districts has thus been made so easy, that there is no longer any occasion for premium or discount on the transfer of actually collected funds between different parts of the country.

A most important result of the development of this check-collection plan is the lessening of the possibility of breakdown in the operations of the country's check-collection system. It will be recalled that, in the panic of 1907, a situation arose in which it was impossible to get cash returns on checks sent for collection to banks in certain centers, and that the machinery of check collection and domestic exchange practically broke down. Such a development is extremely unlikely under the operation of the Federal Reserve check-collection system supported by the borrowing facilities which the Federal Reserve System makes available to member banks, and which should enable solvent banks, even in time of severe crisis, to make payment for checks which may be drawn upon them.

The Federal Reserve check-collection system, in short, provides the machinery necessary to accomplish with maximum efficiency the necessary function of presenting and collecting any number of bank checks which may result from the use of this most convenient instrument in the settling of transactions of every kind.

Relations of Reserve Banks to Member Banks and Inter-Relations of Federal Reserve Banks

By R. M. GIDNEY

Controller at Large, Federal Reserve Bank of New York

THE outstanding characteristic of the American banking system—a tremendous number of practically independent banks, great and small—does not make for concerted, uniform or effective action in dealing with banking, credit and currency problems on a nation-wide scale and in a broad way. The need for means whereby these numerous independent banks could coöperate for mutual protection and for greater service to the commerce, industry and agriculture of the country, has long been recognized by students of American banking organization and methods.

The solution suggested by the experience of other countries which have highly developed systems of branch banking supported by great central banks, has never seemed acceptable to the American public. The form of organization adopted to supply the elements formerly lacking in American banking, was necessarily designed to do so without diminishing or impairing the independence of the existing banking institutions. The Federal Reserve System was created to enable member banks, while operating independently as before, to mobilize or unite their reserve funds and make them more available to meet demands for increased credit accommodation or gold withdrawals for domestic purposes or export. The Federal Reserve Banks were to be supplementary to an already existing system consisting of some 7,500 national banks and over 19,000 state institutions, a very considerable proportion of these institutions being

expected to take membership and thus give to the system the support necessary to make it a going concern, capable of affording to its members the facilities and advantages which it was expected to create. The provision for compulsory membership of over 7,500 national banks then in existence give assurance of ample support at the outset.

The purpose, then, of the Federal Reserve System was to make possible the association of the banks of the country in order to supply the elements of mutual protection, service and facilities which our system of independent banks had lacked, and, in its essential features, it may briefly and accurately be described as a great coöperative banking association. It includes at this time about 8,200 national banks, and 1,625 state banks and trust companies. The latter have become members voluntarily under the permissive provision of the Federal Reserve Act.

RESERVE BANKS ARE PRIVATE CORPORATIONS

The circumstances attending the creation of the Federal Reserve System and the distinctly governmental character of the procedure which brought it into existence, have tended to create the impression that the Federal Reserve System is a purely governmental agency, an impression strengthened by the highly important work done by the Federal Reserve Banks acting as fiscal agents of the government in selling and handling government securities during

and since the War. The fact is, however, that the twelve Federal Reserve Banks are private corporations organized under an Act of Congress, their only stockholders being the member banks whose stock subscription is proportionate to their capital and surplus. Their operations are directed by twelve boards of directors. Two-thirds of the members of each board are elected by the member banks, and one-third are appointed by the Federal Reserve Board. Each Federal Reserve Bank is thus operated under the control of a board of directors including three government representatives, most of whom are business men, three bankers and three men engaged in commerce, industry or agriculture, but not connected as officer or director with any bank. The directorates of the Federal Reserve Banks include not only bankers, but also men experienced and successful in various lines of business, industry or agriculture. This feature of the relationship between the Federal Reserve Banks and their members is worthy of emphasis. It should be understood that the member banks, through their right to two-thirds of the directors of the Federal Reserve Banks, are in control of the actual operations of the Federal Reserve Banks, subject to supervision by the Federal Reserve Board.

Relations between Federal Reserve Banks and their members have grown to be very much like relations between the larger banks of the country and their out-of-town correspondents. The member bank stockholders of the Federal Reserve Banks use these Banks as depositaries for their legal reserves in amounts determined by law, thus bringing about the mobilization of banking reserves contemplated by the Federal Reserve Act, and furnishing the Federal Reserve Banks with the funds which are the basis for their

operations. These relations constitute the minimum which may exist between the Federal Reserve Banks and their members. For some time after the organization of the Federal Reserve Banks, a very large proportion of the member banks did not transact any business through them, and relations were only of the bare minimum above described.

The relationship now existing between the Federal Reserve Banks and their members is the result of evolution and is far closer than in the earlier days of the System. The attitude of the national bank officers whose institutions were practically drafted into the Federal Reserve System at the time of its establishment, was then not altogether friendly, and many of them were strongly antagonistic to the new System and openly expressed their intention to have as little to do with it as possible. These bankers had a natural reluctance to break or impair long established ties, and felt that the Reserve Banks would be in a sense government bureaus and would adopt methods involving red tape and affording little opportunity for close and sympathetic personal relations. Many believed that member banks, especially those in the smaller places, would have little paper of a character eligible for rediscount, and that as they would be obliged to continue to carry reserves with their correspondents, membership in the System would be more of a burden than a privilege.

Those entrusted with the management of the Federal Reserve System, appreciating and understanding the attitude of the member banks, realized that upon them devolved the duty of so conducting the Federal Reserve Banks as to disarm criticism and to make the service of the Reserve Banks to their members so satisfactory and convenient that those who had antici-

pated unpleasant relations would be obliged to revise their opinions. Notwithstanding this forward-looking attitude on the part of the managers of the Federal Reserve System, progress toward closer relations with member banks was slow, and did not become really appreciable until the pressure of problems connected with war financing in 1917 brought about a fuller utilization by member banks of the facilities of the Federal Reserve System and consequently a better understanding of its possibilities for service.

WAR LOANS A CEMENTING FACTOR

To the Federal Reserve Banks was given the great task of organizing in their respective districts distributing agencies for the huge loans which the government found it necessary to float and for this undertaking the aid and support of bankers, both member and non-member, was sought and obtained. The splendid efforts of those associated in this work may be inferred from results. The close relationship thus developed and the splendid coöperation of the bankers with the Federal Reserve Banks in placing the government's loans, made for understanding and mutual appreciation between the Reserve Banks and their members to such an extent that long before the work of government financing had ceased to require the most active efforts of those engaged in it, the attitude of the member banks had changed from passive toleration or outspoken antagonism, to an attitude on the part of the majority of the member banks distinctly friendly to the Federal Reserve System.

With war-time activity, came demand for credit expansion which brought into play the loaning function of the Federal Reserve Banks. Member banks which had been skeptical of the value of the Federal Reserve System

and had doubted the necessity for its existence, found themselves obliged to borrow if they were to do their part in war finance, and for the first time a convincing illustration of the value of the loaning activities of the Reserve Banks was given. Member banks soon found that borrowing at Reserve Banks did not involve unnecessary formality or red tape, as the loan policies of the Reserve Banks have in general been along very liberal lines. Loan applications have uniformly been acted upon promptly on day of receipt, so that a member bank sending in paper for rediscount can count upon receiving credit for the proceeds thereof as promptly as if it were a remittance of bank drafts. Promptness, liberality of treatment and willingness to meet all proper demands, which characterized the loan activities of the Reserve Banks, were most potent factors in bringing about a better understanding with their members.

QUICK MEETING OF CURRENCY NEEDS

At the same time the ability of the Federal Reserve Banks, through their power of note issue, to supply the rapidly expanding currency needs of the country, led to free development of this function. The process by which Federal Reserve notes are issued and redeemed is perhaps worthy of a brief description here. A member bank desiring currency or coin, requests the Federal Reserve Bank to charge its account and if it finds itself with more currency than it desires to retain in vault, or has currency which is no longer fit for use, it forwards the surplus to the Federal Reserve Bank for credit. The Reserve Banks pay the cost of shipping currency or coin both ways, thus facilitating the prompt redemption of currency which is in excess of the immediate needs of the country and enabling member banks

to operate with a minimum of vault reserve. The payment of cost of shipment of currency to the member banks was developed by the Federal Reserve Banks in an effort to give member institutions outside of the Federal Reserve cities as nearly as possible similar service to that given banks in the Federal Reserve cities. A similar policy for shipments of currency received from member banks was adopted as an incident to par check collection, with the object of eliminating any element of cost to a member bank in remitting for checks sent it for collection by the Federal Reserve Bank.

CHECK COLLECTION PLAN PROGRESSED SLOWLY

The Federal Reserve check collection, on the other hand, was long an obstacle to the development of close relations with member banks because of the opposition of many of the banks in smaller places to the change in practice which this system involved. The collection of checks through the Reserve Banks has, however, made tremendous growth, and each Federal Reserve Bank now sends daily letters containing checks for collection to practically all of the banks of its district, both member and non-member. Similar contact results from the collection of notes, drafts, bills of exchange, coupons, maturing bonds, etc., which is undertaken by the Federal Reserve Banks.

Other important facilities are transferring funds by wire between various sections of the country without charge to the member bank and the safekeeping of securities—the Federal Reserve Bank of New York alone now holding in this manner for its members \$1,239,215,899 of bonds and other securities. In all the transactions between the Federal Reserve Banks and their members, the attitude of the Reserve

Banks is like that of any other bank dealing with correspondents, and matters are handled along banking lines, a fact which has had much to do with the development of the close relations which now exist between Reserve Banks and their members.

BETTER BANKING METHODS

An important influence has been exerted by the Federal Reserve Banks making for improvement of banking methods on the part of member banks. The practice of obtaining financial statements from borrowers has become much more general because there is the possibility that the member bank may later desire to rediscount the paper with the Federal Reserve Bank, and also because the requirement of borrowers' statements (for notes of \$5,000 or over) by the Federal Reserve Banks has had the effect of standardizing this practice and leading to its adoption by banks which had formerly not considered it feasible. Membership in the Federal Reserve System has made for important changes in the character of bank investments, mainly in the direction of greater liquidity. Banks which had formerly carried bonds or call loans on stock exchange collateral as their so-called secondary reserve, have adopted the sound practice of diversifying their investments by adding to their portfolios commercial paper purchased in the open market and such highly liquid elements as bankers' acceptances and United States certificates of indebtedness. Thus they have placed themselves in much stronger position as to availability of funds to meet withdrawals by carrying adequate amounts of paper available for rediscount or sale, and, also, at least a moderate amount of paper of short maturity. This improvement in the distribution and liquidity of member banks' investment holdings has enabled them with safety

to invest their funds more closely than ever before with resulting increase in profit.

In the important matter of check collections, also, the practice of the Federal Reserve Banks of deferring credit on out-of-town checks a sufficient time to permit of their actual collection, has led to realization of the importance of promptness in the handling of out-of-town checks, and closer analysis than formerly of accounts involving the element of collection time. The direct activities of the Federal Reserve Banks in collecting checks for their members has reduced very materially, and perhaps cut in half, the time required to collect out-of-town checks, and encouragement has also been given to member banks to form county clearing houses so that banks in neighboring towns may exchange with each other and still further reduce the time required for collection of such checks.

BANKS NEED LESS CASH IN VAULT

More economical methods as to the holding of vault cash by member banks have been made possible by improved facilities for obtaining currency and coin, and by legislation enacted in 1917, relieving member banks from the former requirement for a fixed amount of cash in vault. In October, 1914, the 7,571 national banks of the country held cash in vault equal to 16.4 per cent of their deposits. On June 30, 1921, 9,745 member banks held vault cash equal to only 2.6 per cent of their deposits.

The influence of the Federal Reserve Banks making for improvement in the technical features of bank operation, though not readily measured, has been of fundamental importance and is among the most beneficial results of the System's operations, especially when considered with full realization of the importance in modern economic organiza-

tion of a banking machinery adapted to the great tasks which devolve upon it.

For obvious reasons no publicity has been given to a highly important Reserve Bank activity, the assistance of member banks which for any reason find themselves in a dangerous position; and the confidential character of this relationship precludes other than a very general statement concerning it. In a considerable number of instances the Reserve Banks have not only extended assistance in the way of loans, but have also loaned members of the Reserve Bank staff to assist the institutions through their difficulties, with the result, in a number of instances, that institutions which would otherwise have been forced to succumb, have been rehabilitated and are now in successful operation.

Close relations with member banks have also been assisted in some districts by conferences of member bankers with Federal Reserve Bank officers, at which the operations and functions of the Federal Reserve Banks were clearly and fully explained, and also by visits to member banks at their home offices, made by Reserve Bank representatives. The officers of the Federal Reserve Banks realize an obligation to extend a service of high order to member banks, and to promote coöperation along banking lines rather than to take an attitude which might lead member banks to feel that they were dealing with a distant and impersonal organization operated as a government agency. In other words, the Federal Reserve Banks have undertaken to function as *banks* and to conduct their relations with member banks along much the same lines as those by which the larger banking institutions of the country have in the past so successfully conducted their relations with out-of-town correspondents. The highly satisfactory results of this policy are to be found in

the friendly attitude which is now manifest on the part of member banks toward the Federal Reserve Banks.

INTER-RELATIONS OF RESERVE BANKS

The establishment of twelve regional Federal Reserve Banks rather than of a central bank, was in keeping with the great area of our country, which might be considered as making the establishment of one great central bank of doubtful advantage, and with the American predilection for the minimum of banking centralization. The twelve Federal Reserve Banks were to be, and are, operated each by its own board of directors, and each is to a very large degree an independent entity, having power to deal with the problems arising within its own district according to the judgment of its directors and officers. This has given opportunity for the development of a considerable degree of individuality in personnel and methods, and for the control of each Federal Reserve Bank by men familiar with the business of the district.

Counteracting to a considerable degree this tendency to individuality in the management and operations of the several Federal Reserve Banks, is the influence of common function and purpose, of interbank contact, and, also, the supervision of the Federal Reserve Board. The practically identical relationship of each Reserve Bank to its members and the similarity of functions, led early to efforts to coordinate action on all matters possible of common solution. Even before the organization of the Federal Reserve Board and the Federal Reserve Banks, the preliminary Organization Committee had prepared plans for accounting and methods which were to a considerable extent used by the Reserve Banks when organized, though modified in many ways as experience showed need for change.

A conference of governors and directors of all Federal Reserve Banks preceded the actual opening of the Banks. Problems of general policy before the Banks and the Federal Reserve Board, have been the subject of discussion at conferences held from time to time by governors and Federal Reserve agents. Numerous conferences have also been held by representatives of the Reserve Banks to deal with the more technical features of operation, such as accounting and auditing methods, check collections, employment methods and other similar problems. The spirit of coöperation and willingness to take counsel together, evidenced at these conferences, has been typical of the everyday relations between the Reserve Banks and has resulted in the development of a close-knit system in which the several units, though independent in management, work together to obtain for their members and the public the advantages to be derived from a unified banking system.

The results of coöperation among the Federal Reserve Banks are in some cases very tangible, as, notably, the country-wide check collection system, the establishment of facilities for transfers of funds over the private wires between Federal Reserve Banks, the establishment of a Gold Settlement Fund through which has been obviated the necessity of gold shipments between different parts of the country, and, perhaps most important of all, the facilities for interbank rediscounts by means of which seasonal loan demands may be met by the Reserve Banks whose positions are relatively strong and who loan to those on which the pressure is greatest. The advantage claimed for a central bank with ability to direct the flow of loanable funds to the point of maximum need, appears to have been attained through this arrangement, as interbank rediscounts have been freely

and voluntarily made in such amounts as were necessary to meet the heavy loan demands in many districts which would otherwise have found themselves with greatly impaired reserves.

The heaviest borrowers relatively have been the Federal Reserve Banks in the agricultural sections, the lenders being usually the banks in sections whose activities are predominantly industrial. The interbank loans at their high point were as shown in the table below:

INTER-BANK LOANS OF FEDERAL RESERVE BANKS

<i>Borrowers</i>				<i>Lenders</i>			
Bank	Amount	Reserve Before	Percentages After	Bank	Amount	Reserve Before	Percentages After
New York....	\$49,305,000	35.3	38.6	Boston.....	\$85,896,000	72.0	51.1
Richmond....	19,900,000	35.4	45.8	Phila.....	42,722,000	63.8	52.3
Atlanta.....	37,758,000	23.2	40.5	Cleveland.....	137,874,000	80.5	52.3
Chicago.....	13,050,000	37.9	39.5	San Francisco...	886,000	45.2	44.9
St. Louis.....	40,410,000	21.0	41.3				
Minn.....	27,204,000	17.0	39.0				
Kansas City...	45,807,000	17.4	42.5				
Dallas.....	33,944,000	13.2	40.9				
TOTAL.... \$267,378,000				\$267,378,000			

The chart on page 94 illustrates graphically the movements of reserves of the Federal Reserve Banks, evidencing the pressure of demand for loans which could be safely met only by rediscounting.

RESERVE BOARD'S INFLUENCE FOR UNITY

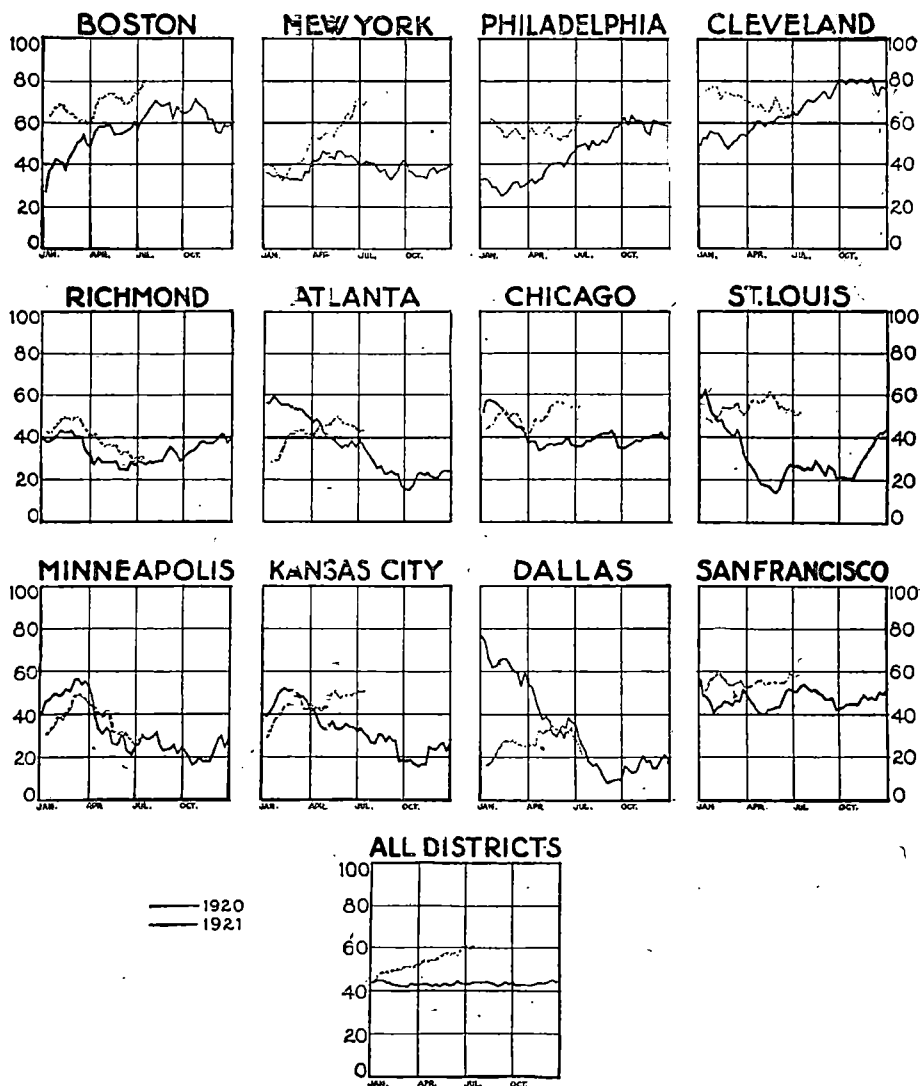
Strong as were the forces which have been mentioned in making for close relations and coöperation on the part of the Federal Reserve Banks, the position of the Federal Reserve Board, as the central element in the Federal Reserve organization, is one of such great influence that its policies may be regarded as in large measure responsible for the course which has been taken in the development of the System provided for in general outline by the

action of Congress. The policy of the Reserve Board, as revealed in its rulings and the public utterances of its members, has been consistently to refrain from performing operating functions in connection with the management of the Reserve Banks and to make its field of activity the supervision and coördination of twelve practically independent regional reserve institutions. Its rulings and regulations have served to interpret and apply the law under

which the Reserve Banks operate, and also to bring about general uniformity in the policies of the Reserve Banks, while leaving a large discretion to the management of each Bank as to the acceptance or rejection of individual paper, offered for rediscount, and as to other problems of operation.

Thus there has been noted in the operations of the Federal Reserve System a combination of uniformity of policy and flexibility of everyday operation which would be difficult or perhaps impossible under a system where the operating function was controlled by a central body. A tendency toward similarity of discount rates at the several Reserve Banks has been apparent, though differences in conditions have prevented and are likely to prevent complete uniformity in this

RESERVE PERCENTAGES FEDERAL RESERVE BANKS BEFORE INTERBANK ACCOMMODATIONS



particular. Practices as to check clearing and collection; collection of notes and drafts, supplying currency and coin, and loaning operations, are much alike at the different Reserve Banks, yet each Bank may, independently within the limits set by the law and the Federal Reserve Board's ruling and regulations, perfect and improve its methods of operation at its own option.

The Federal Reserve Board has made very clear that the Federal Reserve System is not a central bank or its equivalent, but that the twelve Federal Reserve Banks are independent institutions over which the Federal Reserve Board exercises supervisory authority, without attempting to participate directly in the management.

It thus appears that the advantages

to be expected from the free flow of credit from one part of the country to the other to meet demands for commercial, industrial or agricultural purposes, are supplied by the inter-bank rediscounting feature of the Federal Reserve System, but that the aim of having the problems of each district entrusted to directors living within the

district and to officers closely familiar with these problems, with full discretion and power to act within their own districts, has also been attained. The Federal Reserve System may be said to give the advantages of the mobilization and centralization of banking reserves while preserving the typically American freedom from highly centralized control.

The Evolution and Practical Operation of the Gold Settlement Fund

By GEORGE J. SEAY

Governor of the Federal Reserve Bank of Richmond

IT is difficult to realize that only seven years have elapsed since the establishment of the Federal Reserve Banks. During that period, matters of such tremendous import to the world have happened and developments in banking and finance have been so revolutionary in their nature and size that we have a full understanding of the feelings of the small boy of seven who declared that, although only seven, judging by the experience he had had, he was 'most a hundred. Since 1914, the resources of the banks of the United States have grown from 27 billions of dollars to 53 billions, and bank clearings have grown from 155 billions to 451 billions. In measuring the national debt, the income of the Treasury and taxation, the unit is no longer a million but a billion.

All the momentous and tragic experiences of life leave an impression upon the mind of having occupied a prolonged period. Therefore, it seems that the Federal Reserve System has been operating for a period much longer than that measured by seven calendar years. As a matter of fact, it has, beyond doubt, developed in those seven years at a pace far more

rapid than could have been expected in normal times. The country seems accustomed and seasoned to the operations of the Federal Reserve System, but, it becomes apparent from time to time that many people and even many banks have not a full appreciation of the accomplishments of the System or a full understanding of the fact that financial transactions of the magnitude developed within these seven years were rendered possible only by the operation of the System.

The country banker, when he sends his checks and collection items to his city correspondent, may think that thereby he is creating exchange. This is but the first and the lowest step in the creation of exchange. The processes involved in the collection and final settlement of such items are numerous and they constitute the fabric of exchange. The Federal Reserve System has developed the most comprehensive and most effective system of exchange known to the banking world.

The Federal Reserve Banks act as clearing houses for their members, and the various transactions engaged in by these banks create balances between

them and their members and between each other. The Federal Reserve Board has set up machinery which operates as a clearing house between Federal Reserve Banks, and the Gold Settlement Fund is the heart of the System.

Therefore, an account of the evolution and the practical operation of the Gold Settlement Fund, through which final payment is made for that vast volume of credit instruments circulating throughout the country, must contribute to a better understanding of the System as a whole.

EARLY NEED OF INTER-BANK SETTLEMENT MACHINERY

Under the terms of the Federal Reserve Act, the Federal Reserve Board, in Section 16, was authorized at its discretion to exercise the functions of a clearing house for Federal Reserve Banks. It is not to be supposed that there dwelt in the minds of the framers of this provision of the Act any well-defined conception of the manner in which this function would be exercised and least of all of the nature and magnitude of the settlements which this "clearing house" would be called upon to make within such a short period of time.

During the early days, after the organization of the Federal Reserve Banks in November, 1914, they were occupied chiefly by the receipt of payments of subscriptions to capital stock and with the receipt from member banks of deposits setting up the reserve required by the Act. Payments on account of subscriptions to capital stock were required to be made in gold or gold certificates. Reserve deposits were required to be made either in gold or lawful money, except that Federal Reserve Banks were authorized to receive as reserve not exceeding one-half of each installment payment in

eligible paper, as described in Section 14. That is to say, member banks were permitted to rediscount at that time with their Federal Reserve Bank to this extent in establishing reserves.

Under date of November 25, 1914, a circular was issued by the Federal Reserve Bank of Richmond, advising its members that the bank was ready to commence rediscounting in the regular course of business and in a position to furnish Federal Reserve notes for the proceeds of rediscounts. The member banks had previously been advised that collections and clearings could not be undertaken at the beginning and that, therefore, active accounts of member banks could not be established until further notice. They were advised, however, that after initial payments of reserve had been made, checks drawn on any member bank in the cities of Richmond, Washington and Baltimore, all within the district, would be received for the credit of the members. The member banks were cautioned, however, that while the Richmond bank was accepting checks on banks in the reserve cities of the Fifth District "it is not intended at this stage that the Reserve Bank shall be used merely to transfer balances in one place in order to make them available in another," and further "members are expected to use their present clearing connections for making collections until greater preparation has been made for clearing."

Notwithstanding the restricted nature of the business conducted at that time, balances in excess of the required reserve were created, and checks against these balances found their way into other districts. No machinery had been set up to effect settlements between Federal Reserve Banks, but it was the understanding that any Federal Reserve Bank would have the

right to call upon any other for remittances in gold to effect settlement of balances between the two.

At that time of the year (December) the flow of funds was towards New York, and, as a result of the practice of receiving from member banks for credit checks on their balances in the reserve cities of this district and then permitting the banks to check on such balances—which checks were usually sent to New York in order to create exchange—the Federal Reserve Bank of Richmond became in debt to the Federal Reserve Bank of New York for several millions of dollars. To place restraint upon this practice it became necessary to advise member banks that such checks deposited with the Federal Reserve Bank for the purpose of creating exchange would be subject to a charge for collection, in accordance with Section 16 of the Act. On January 18, 1915, in sending out notification of the second installment due on capital stock subscriptions, members were advised that payments could be made by means of checks on national banks in New York City instead of in gold. This was done for the purpose of reducing the debt of the Richmond Bank to the New York Bank, thus, to that extent, avoiding settlement with the New York Bank in gold.

It will be apparent that very early in the operation of the System the necessity for providing the machinery for making settlement between Federal Reserve Banks was a pressing one, and during that time careful study was being given to the question, both by the Federal Reserve Board and the officers of the Federal Reserve Banks.

ESTABLISHMENT OF THE GOLD SETTLEMENT FUND

Prior to the organization of Federal Reserve Banks, a report was made to

the Reserve Bank Organization Committee, by those whose services were engaged for the purpose, which contained many practical suggestions as to the organization and operation of Federal Reserve Banks. Among these was a suggestion for a "Federal Reserve Clearing House," which involved the deposit of a certain sum of gold by each Federal Reserve Bank with the Federal Reserve Board or with any Federal Reserve Bank designated by the Board to act as a clearing agent and settle balances between Federal Reserve Banks by means of book entries made by a settling agent or by certificates issued by the settling agent.

At the first conference of the governors of the banks, held with the Board in Washington, December 10, 11 and 12, 1914, a special committee was appointed to study the subject and report to the next conference. At the second conference held in Washington, January 20–23, 1915, the report of the committee was received, discussed by the conference, and, with several amendments, was submitted to the Federal Reserve Board. The plan submitted to the Board by this conference was substantially that outlined in the report of the preliminary committee on organization, though many details were submitted by the conference. The Board took the matter under consideration and announced in April, 1915, that the plan of settlement between Federal Reserve Banks had been completed and would become effective about the middle of May, 1915.

In the meantime, all the Federal Reserve Banks had been maintaining accounts with one another, which accounts, of course, were affected by all interdistrict transactions.

Under date of May 8, 1915, the Federal Reserve Board issued its *Bulletin* No. 13, Series of 1915, out-

lining the plan of clearing between Federal Reserve Banks. The plan was designed to effect settlements of all balances then outstanding and thereafter to settle accounts between Federal Reserve Banks weekly. The following is a brief statement of the principal feature of the plan: Each Federal Reserve Bank was required to forward to the Treasury at Washington or the nearest subtreasury for credit in the account of the Gold Settlement Fund one million dollars in gold, gold certificates or gold order certificates, in addition to an amount at least equal to its net indebtedness to all Federal Reserve Banks.

The Treasury Department undertook to advise the Federal Reserve Banks of the receipt of the funds and undertook further to deliver to the Federal Reserve Board gold certificates payable to the order of the Federal Reserve Board in denominations of ten thousand dollars, covering the sum so deposited. Each Federal Reserve Bank was required to make such payment into the Gold Fund from time to time as might be necessary to maintain the balance to its credit in the Fund at one million dollars. Federal Reserve Banks having balances in excess of one million dollars, as a result of clearing operations, were allowed to withdraw the excess at will, payment to be made by shipment of gold order certificates to the said bank by the Board, or payment through the nearest subtreasury.

The Board kept a set of books in which there was an account for each Federal Reserve Bank, showing at all times the amount of gold held for each bank. The gold order certificates representing the gold held by the Treasury were kept in a safe in the Treasury vaults set apart for the exclusive use of the Board, to be opened only in the presence of two persons

designated by the Secretary and two designated by the Board. The balance of each Federal Reserve Bank in the Gold Fund was permitted to be counted as a part of the gold reserve of the bank. Each Federal Reserve Bank was required to keep two accounts with every other Federal Reserve Bank, one showing the total amount due to the other Federal Reserve Bank and the other, the amount due from the other Federal Reserve Bank.

The first settlement, being historic, will be described. It was made in the following manner. At the close of business, Wednesday, May 19, 1915, each Federal Reserve Bank advised the Federal Reserve Board by wire the amount in even thousands due by it to each other Federal Reserve Bank as of that day. On Thursday, May 20, the settling agent appointed by the Board telegraphed each Federal Reserve Bank the amount of credits to its settling account, giving the name of each bank from which such credits were received, also the net debit or credit balance in the settlement. After the receipt of these advices, but not later than May 24, each Federal Reserve Bank was required to put into the Gold Fund by shipment or transfers of gold or gold certificates of the United States, directly or through the nearest subtreasury, an amount sufficient to cover its debit balance, if any, and to establish a credit balance of at least one million dollars. The totals so remitted at that time were \$18,450,000. The Federal Reserve Banks made appropriate entries in their accounts based upon the report of the settling agent. Thus the Gold Settlement Fund was launched. Thereafter, settlements were made weekly, on Thursday, upon the basis of figures telegraphed by each Federal Reserve Bank at the close of business Wednesday.

The Treasury Department had not only agreed to receive remittances in gold and to issue ten thousand dollar gold order certificates to the Federal Reserve Board, but had also agreed to allow the use of the subtreasuries in connection with remittances and withdrawals from the Gold Fund by Federal Reserve Banks. It was understood and agreed, however, that if the receipt of such remittances or the making of such payments at any time involved the actual shipment of gold from the Treasury at Washington to a subtreasury, or vice versa, the expense of such shipments should be borne by the Federal Reserve Banks.

COMMENCEMENT OF AN INTRA-DISTRICT CLEARING PLAN BY FEDERAL RESERVE BANKS

It will be understood that the balances of member banks with their Federal Reserve Banks were affected chiefly by two operations: first, by discount operations, and, second, by the collection of checks through the Federal Reserve Bank. Up to this time, as before described, the collection of checks by a Federal Reserve Bank for its members, even within its own district, had been very limited. In June, 1915, most, if not all, of the Federal Reserve Banks put into operation a voluntary plan of intra-district collections. According to this plan, a Federal Reserve Bank invited all of its members to join the collection plan, under which each member that joined the plan could send to the Federal Reserve Bank checks upon every other member that had joined the plan but upon no other members and upon no member outside of its own district. The Federal Reserve Bank would give the sending member bank immediate credit for such checks in its reserve account. On the other hand, each member bank joining the plan had agreed

that upon the day of receipt the Federal Reserve Bank could charge its reserve account with the total amount of checks drawn upon it.

While the operations of this plan did not primarily involve relations between Federal Reserve Banks, such relations were indirectly involved. Clearings under the plan depleted the reserve accounts of some members and resulted in excess balances in the reserve accounts of others. The member bank whose reserve accounts had been depleted had to remit in gold or lawful money or in some form of exchange acceptable to the Reserve Bank. Other banks whose clearings resulted in excess balances had the right to check against such balances and checks on one Federal Reserve Bank were received for credit by other Federal Reserve Banks. These transactions, in so far as they affected the accounts between Federal Reserve Banks, tended to increase the volume of the weekly settlements through the Gold Settlement Fund. It is because of this fact that a description is given of the early developments of a collection plan by Federal Reserve Banks.

In addition to clearing weekly, Federal Reserve Banks had the privilege of transferring excess balances in the Gold Fund to other Federal Reserve Banks by wire or letter to the Federal Reserve Board. During the week ending June 24, 1915, the Federal Reserve Bank of San Francisco transferred in this way to the Federal Reserve Bank of Boston two hundred thousand dollars. During the week ending July 1, 1915, San Francisco made two transfers, four hundred and fifty thousand dollars to New York and thirty thousand dollars to Chicago. These initial transfers are mentioned because they are historic. After that time, transfers between Federal Reserve Banks became more and more frequent.

The first withdrawal from the Gold Settlement Fund by any Federal Reserve Bank was made on July 14, 1915, by the Federal Reserve Bank of Chicago. Its telegram requesting the payment was received by the Board at 10.30 a.m. and at 2.00 p.m. on the same day the Assistant Treasurer of the United States at Chicago advised the bank of his readiness to make payment. Although in a number of cases thereafter such withdrawals occurred from time to time, the convenience and usefulness of the Gold Settlement Fund became more and more apparent, and there developed a tendency to allow credit balances to accumulate, so that the Fund passed the one hundred million dollar mark on November 18, 1915.

FEDERAL RESERVE AGENTS' GOLD FUND

In the latter part of 1915, the Board determined to enlarge the scope of the Gold Settlement Fund by opening accounts with the Federal Reserve agents of the various Federal Reserve Banks. While very little discounting was done by Federal Reserve Banks in the early days of the System, the volume of Federal Reserve notes put out was very considerable. Therefore, almost from the beginning, each Federal Reserve agent had the custody of and the responsibility for a considerable amount of gold, all of which, except 5 per cent deposited with the Treasurer of the United States as redemption fund, remained in his possession. Transactions involved in the issue and retirement of Federal Reserve notes necessitated frequent payments in large sums from the bank to the agent and from the agent to the bank. When these payments were made in gold or gold certificates, much counting and recounting was necessary on the part of the employees of the

bank and the representatives of the Federal Reserve agents.

In the early part of September, 1915, the Federal Reserve Board resolved that a Gold Fund should be established for the use and benefit of Federal Reserve agents, not identical with, but in close relation to and coöperation with the Gold Settlement Fund of the twelve Federal Reserve Banks. The settling agent of the Board was directed to open and maintain on the books a distinct and separate account for each Federal Reserve agent and to receive from the said agent, or from the Federal Reserve Bank for the account of such agent, deposits of gold certificates, subject to the order of the Federal Reserve agent for whom such deposits had been made. The fund of the Federal Reserve agents was handled and operated in the same manner as the Gold Settlement Fund of the banks, but, as before mentioned, the funds were handled separately. As a consequence, when transfers were made from an agent to a bank or a bank to an agent, it was necessary for the representative of the Board to make an actual shift of gold or gold certificates from one safe to another or from one compartment in the safe to another compartment.

The Federal Reserve Bank of Atlanta was the first to make such a transfer. On September 8, 1915, \$2,500,000 was passed from the account of the bank in the Gold Settlement Fund to the credit of the Federal Reserve agent. Simultaneously, the Federal Reserve agent of Atlanta released to the Federal Reserve Bank of Atlanta the same amount in gold or gold certificates. The second bank to make use of this facility was the Federal Reserve Bank of Richmond, the amount of the transfer being \$2,600,000 from the account of the bank to the account of the agent. At the

time of this writing, the Federal Reserve agents in five of the Federal Reserve Banks are keeping all of the gold deposited with them (except the 5 per cent redemption fund deposited with the Treasurer of the United States) in this fund. Of the remaining seven, six have much larger amounts to their credit in the fund than they are holding in the vaults of their banks. The amount to the credit of all Federal Reserve agents in the fund is \$1,169,210,000, while the total amount of gold and gold certificates held by the several Federal Reserve agents at their respective banks is \$450,162,000. The total amount in the funds of the Federal Reserve agents and Federal Reserve Banks is \$1,665,321,000.

SCOPE OF CLEARING PLAN

The voluntary intra-district clearing plan, established by nearly all of the Federal Reserve Banks in June, 1915, did not prove successful because it embraced only a comparatively small percentage of member banks whose operations through the Federal Reserve Banks were confined to the exchange of checks upon one another. As a matter of fact, the plan was devised and operated partly as an experiment to develop experience and data necessary to the intelligent planning of a more comprehensive system. The Federal Reserve Board and the officers of all the Federal Reserve Banks had given a great deal of time and study to the situation, both in conferences with the Board and otherwise. On July 15, 1916, the present clearing plan between Federal Reserve Banks and their members and between the Federal Reserve Banks themselves was put in operation. The plan is now too well known to need description. The plan has been modified and improved to some extent since its inauguration. At the time the plan

was inaugurated, the total number of member and non-member banks embraced in its operation was approximately fifteen thousand. At the present time the number is 28,191, or 92.8 per cent of all banks in the country, embracing more than 98 per cent of all banking resources. The number of items handled by the System in 1920 was 503,728,000, amounting to \$179,459,351,000.

The operation of the new collection plan very greatly increased the number of transactions between Federal Reserve Banks. At the same time, the increasing issues of Federal Reserve notes made necessary an increasing number of transfers between each bank and its Federal Reserve agent and between the banks themselves and the Treasurer of the United States in transactions relating to the 5 per cent redemption fund for Federal Reserve notes.

In its Second Annual Report covering the operations of the Fund, the Federal Reserve Board, page 79, stated: "The Federal Reserve Board has, up to the close of the year 1915, settled through the Gold Settlement Fund for the twelve Federal Reserve Banks indebtedness aggregating \$1,052,649,000 with a net change of only \$95,697,000 in ownership of gold held in the Fund, or 8.14 per cent of the total amount cleared. The direct expense incident to the Gold Settlement Fund in handling these transactions has been approximately \$1,150, principally for equipment and telegraph services."

In its Third Annual Report covering the year 1916, the Federal Reserve Board stated that the total clearings for the year had been \$5,533,966,000. The cost of handling the Fund was \$1,343.37, or \$0.002½ per \$1,000. The net amount of change of ownership among Federal Reserve Banks as

a result of these clearings was only \$223,870,000. The Board remarked, "It may be estimated conservatively that the shipment of coin and currency of at least that amount was thus avoided." This statement merits careful attention.

AMENDMENT OF JUNE 21, 1917

The next step in the evolution of the Gold Fund was as follows: It will be remembered that the Gold Funds of the Federal Reserve Banks and the Federal Reserve agent were kept separately and that this arrangement made it necessary for the two representatives of the Federal Reserve Board and the representative of the Treasury Department to open the safe in which the Fund was held in ten thousand dollar gold order certificates and make actual transfers of such certificates from one fund to the other whenever transfers were rendered necessary. Continued increases in the issue of Federal Reserve notes and in the number and amounts of transactions between Federal Reserve Banks, involving large increases in both gold funds and a greatly enlarged number of transactions, made the duties of the custodians of the Gold Fund very burdensome. Therefore the Board recommended to Congress an amendment to the Act, which became a law on June 21, 1917, for the purpose of simplifying the operation of the Fund, which had grown from \$18 450,000 in May, 1915, to considerably more than \$500,000,000.

Under the new plan, made possible by the amendment of Section 16 of the Federal Reserve Act, the Treasurer of the United States opened an account with the Federal Reserve Board, giving credit to the Board for the sum of deposits of Federal Reserve Banks and Federal Reserve agents combined. Individual accounts were kept as

formerly by the Federal Reserve Board. The Fund was transferred to the keeping of the Treasurer of the United States, and the Board, in its bulletin for July, 1917, in describing the transfer, said: "Some idea of the magnitude of the Fund may be had from the fact that a truck load of gold order certificates (in ten thousand dollar denomination) was transferred from the Federal Reserve Board to the Treasurer of the United States. It took three men over two days to place a stamped endorsement on the certificates. Had the amount represented been in the form of gold coin, it would have weighed 963 short tons. The Treasury of the United States, of course, issued its receipt to the Board for the money."

In its Fourth Annual Report covering the year 1917, the Federal Reserve Board stated that the operation of the Fund, which was, in effect, a clearing house for the twelve Federal Reserve Banks, had been particularly useful during the year by reason of the continuous transfers of very large amounts, which had grown out of the sale of government bonds and Treasury certificates and redistribution and disbursement of the funds realized. The total volume of clearings and transfers through the Fund during the year amounted to \$26,962,000,000, as compared with \$5,575,000,000 during 1916. The net balances representing the change of ownership between the Federal Reserve Banks of gold held in the fund were \$272,000,000. The Board stated: "Without such an arrangement, actual settlements between Federal Reserve Banks would have been accompanied with great expense and loss of time, but by its aid these enormous transfers have been made automatic and instantaneous and have been made without the inconvenience and expense which would have been

unavoidable had a physical transfer and shipment of money been necessary."

It is not only the expense and delay of the physical transfer and shipment of money which was avoided. It is to be doubted whether such transfers would have been possible at all under the old banking plan without creating financial disturbances which would have unsettled the business of the nation.

Up to this time Federal Reserve Banks were still making weekly settlements on a basis of figures shown by their books at the close of business Wednesday. Practically all communications between the Federal Reserve Banks and the Federal Reserve Board with reference to weekly settlements and transfers had been made by wire, and messages had necessarily been sent over the commercial wires. The necessity for private wires between all Federal Reserve Banks and branches and the Federal Reserve Board became too urgent to be postponed. A private or leased wire system was put in operation on June 4, 1918, and all Federal Reserve Banks employed telegraph operators.

DAILY SETTLEMENTS THROUGH THE GOLD FUND

The next step in the evolution of the Gold Fund was the institution of daily instead of weekly settlements. On July 1, 1918, a daily settlement plan was put into effect. In the *Bulletin* for July, 1918, the Board said:

The plan will eliminate a great deal of work at the Federal Reserve Banks, and through daily instead of weekly settlements will provide for the proper adjustment of the gold holdings to the credit of each Federal Reserve Bank in the Gold Settlement Fund in as nearly automatic a way as possible. At the present time, the Federal Reserve Banks, in addition to the

weekly settlement, have the privilege of demanding transfers at any time upon the net debit balance as shown in accounts with other Federal Reserve Banks. It must be expected that if the present plan of weekly settlement were to be maintained, such transfers would become more numerous in the future as the calls upon the Federal Reserve Banks became heavier. The proposed plan (for daily settlement) would do away with the greater part of such transfers and will release for the strengthening of their reserves the funds now carried as the amounts due from other Federal Reserve Banks. Under the law, balances due from other Federal Reserve Banks could not be counted as a part of the reserve of any Federal Reserve Bank, but under the regulations of the Board, which then existed, such balances due from other Federal Reserve Banks were allowed as deductions from net deposits in making reserve calculations.

GROWTH IN CLEARING TRANSACTIONS

Combined clearings and transfers through the Fund during the year 1918 aggregated \$50,242,000,000. Thus, by gradual development, what seemed, and was indeed, a formidable undertaking was worked out. The internal accounting operations of the Federal Reserve Banks were readjusted and improved, but no change was made in the plan of settlement during the year 1919. Clearings and transfers through the Fund for the year 1919 aggregated practically 74 billion dollars. The Board, in its annual report for the year 1919, made the following statement:

When it is considered that these enormous transfers are made almost instantaneously by means of the leased wire system without involving the physical movement of a dollar, it will be seen that the arrangement has been of incalculable value to the government, the banks and the public. The total expense of operation, including the cost of the leased wires and the salaries of accountants, was approxi-

mately \$250,000. This represents the basic cost of effecting domestic exchanges between the several reserve districts. A charge of ten cents per one hundred dollars, if generally imposed, would have imposed an expense on the commerce of the country of \$73,984,252.

The leased wire system had been extended to all branches of Federal Reserve Banks, and in many cases these branches participated in the Gold Settlement Fund.

The last refinement in the evolution of the Gold Settlement Fund was made when all transactions between Federal Reserve Banks which are settled through the Gold Fund were made effective on the day on which they occurred. This was made possible by the introduction of a plan or practice under which all transactions to be settled through the Gold Fund were wired to the Board from the banks and the branches, and the Board made the settlement upon its books as of that day at the earliest possible hour on the following morning, and wired the settlement figures to each Federal Reserve Bank. The Federal Reserve Banks kept their books open until such wires were received from the Federal Reserve Board, and then made the few entries necessary and closed their books as of the previous day. This plan has worked admirably and has eliminated all the float which had to be carried by those Reserve Banks with credit balances in the settlement under the previous plan, by which the daily settlement payments were not received until the day following that on which the settlement figures were made up. The volume of clearing through the Gold Fund for the year 1920 was \$92,625,000,000. The average weekly volume of clearings increased from \$31,898,000 in 1915 to \$1,793,584,000 in 1920.

"Behold, how great a matter a little fire kindleth!" Thus, from cautious beginnings, feeling the way, but nevertheless with unexpected rapidity of progress, the Federal Reserve System has developed the most effective, the most comprehensive and the most economically administered exchange system in the world of banking. When all the banks of the country are on a par clearing basis, the system can be made still more effective and useful.

At the present time, a member bank may obtain from its own Federal Reserve Bank, free of expense to itself, a telegraphic transfer of funds, in any amount, to any point in the country where a member bank is located. These transactions are effected between Federal Reserve Banks and are settled through the Gold Fund.

The Gold Fund has been of inestimable value to the Treasury, and has rendered easy of accomplishment the most stupendous financial operations ever undertaken. During the past two years, the government has collected taxes from every nook and corner of the country, amounting to about one billion dollars quarterly. Certificates of indebtedness have been issued, have matured and been paid, and the receipts and disbursements of the Treasury for a single day, on occasions, have amounted to approximately a billion dollars each way. All of these funds passed through the Federal Reserve Banks; they were adjusted and redistributed through the Gold Fund without disturbance of the financial equilibrium and so smoothly as to occasion hardly a comment. It has become a routine matter.

Lord Byron makes the Prisoner of Chillon say:

"So much a long communion tends
To make us what we are."

So we say that the public from long communion with these huge transactions now takes them as a matter of course, but without fully understand-

ing that it is the wonderful working of the Federal Reserve System which makes us commercially and financially what we are.

Eligibility for Discount

By CHARLES L. POWELL

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THE kind and character of paper which the Federal Reserve Banks may discount for member banks is in broad general terms defined in Section 13 of the Federal Reserve Act. It is there provided that the Federal Reserve Banks, upon the endorsement of member banks, may discount for them: (1) notes, drafts and bills of exchange issued or drawn for agricultural, industrial or commercial purposes, or the proceeds of which have been used or are to be used for such purposes; (2) acceptances of banks of the character and kind described in the Act.

The Federal Reserve Board, by the same section of the Act, is given the right to determine or define the character of paper made eligible for discount within the meaning of the Act; and, the Board in the exercise of this statutory right has, from time to time, promulgated a series of regulations for the guidance of the Federal Reserve Banks and member banks. These regulations, while not a part of the statute, having been made and promulgated by a lawfully constituted body, have the force and effect of law.¹ As is said by the Supreme Court of the United States, in *United States v. Clark*, "the Legislature cannot delegate its powers to make a law, but it can make a law to delegate a power to

determine some fact or state of things, upon which the law makes, or intends to make, its own action depend." Accordingly, the regulations made by the Federal Reserve Board defining, applying and limiting the character of paper eligible for rediscount must be read as part of the Act.

GENERAL LIMITATIONS ON ELIGIBILITY

The limitations on eligibility for discount, as provided by the Act and the regulations of the Board, are directed to (1) the maturity of the paper and (2) its source of origin, or the purposes for which it is to be used. The language used by the Act in respect to the latter is modeled upon many prior proposals for legislation and was manifestly for the purpose of avoiding the use of bank funds in two general classes of transactions, that is to say, in speculative transactions and in transactions involving capital investments.

The reason for these two provisions of the Act—the one relating to the origin or purpose of the note or bill and the other to its short maturity—is found in the recognized necessity of keeping the assets of the bank liquid at all times and thus readily available to meet the demands of commerce and trade.

It was expected, and the operation of the Act has proved it to be the case, that a large part of the banking resources of the nation would find its way into the

¹ *United States v. Grimaud*, 220 U. S. 506; *Dastebignes Case*, 122 Fed. 30; *United States v. Clark*, 143 U. S. 664.

Reserve Banks. It was, and is, unthinkable, from a scientific standpoint, that these resources should be tied up in long-time investments, or in investments permanent in their nature. It is the very essence of the Federal Reserve System that its funds must be invested in short-time securities, which, in theory at least, are self-liquidating.

BOARD DEFINITIONS OF ELIGIBLE PAPER

Regulations of the Federal Reserve Board have been promulgated and put into effect, clarifying, amplifying and explaining the language of the Act, keeping in view at all times the broad general provision of the Act that investments must be of short maturity and must have arisen out of commercial transactions. These regulations have been revised from time to time. The last revision was put out under date of October 6, 1920.² This revision was amended May 6, 1921.³

The Board's regulations define with particularity promissory notes, drafts, bills of exchange, trade acceptances, six months' agricultural paper and bankers' acceptances eligible for discount, but the definitions thus promulgated by the Board are well within the usual definitions found in the Negotiable Instruments Acts of the various states, so far as such acts deal with similar instrumentalities of commerce.

In addition to definitions of such ordinary instruments, a trade acceptance is defined as "a draft or bill of exchange, drawn by the seller on the purchaser of goods sold, and accepted by such purchaser."

Six months' agricultural paper is defined as "a note, draft, bill of exchange or trade acceptance, the proceeds of which have been used, or are to be used, for agricultural purposes, in-

cluding the breeding, raising, fattening or marketing of live stock, and which has a maturity at the time of discount of not more than six months, exclusive of days of grace."

COMMERCIAL AND AGRICULTURAL PURPOSES DEFINED

Under the regulations, paper may be eligible because issued or drawn for an agricultural or commercial purpose, or it may be eligible because the proceeds have been, or are to be, used for an agricultural or commercial purpose. The purchase and sale of goods of any character is a commercial transaction from the standpoint of the seller, and the note of a buyer given to the seller in payment for articles purchased is a note which has been "issued or drawn for a commercial purpose."

The use of the proceeds of a note to purchase goods for re-sale is a commercial purpose, even though the articles purchased will be permanent investments in the hands of the final purchaser; and, accordingly, the note of a dealer, discounted by him at a local bank, to provide funds to purchase articles for re-sale, may be eligible for discount as commercial paper, irrespective of the character of the articles purchased; but a note of a farmer discounted by him at his local bank to provide funds with which to purchase articles for agricultural uses, is eligible or ineligible for discount according to the character of the articles. If the articles are in the nature of permanent or fixed investments, then it is not eligible; but if, on the other hand, they are articles for agricultural uses and have to be replaced from time to time, the farmer's note is eligible for discount as agricultural paper.

The distinction between agricultural paper and commercial paper is important in several respects: Agricultural paper having a maturity of

² *Federal Reserve Bulletin*, 3: 1179.

³ *Ibid.*, 7: 545.

six months may be eligible, while commercial paper to be eligible can have a maturity of but three months; a farmer's note given in payment for articles or commodities to be used by the farmer for agricultural purposes is agricultural paper; but the purchase and sale of agricultural products is a commercial and not an agricultural transaction, and a note given to a farmer for agricultural products grown by him, is eligible, if at all, as commercial paper.⁴

LONG-TIME FUNDS AND GOVERNMENT BONDS

The Board's regulations, following the provisions of the Act, provide for the discount by Federal Reserve Banks of such notes, drafts, bills of exchange, trade acceptances, six months' agricultural paper and bankers' acceptances of short maturity and of commercial origin referred to therein, but such regulations, following and expressing the spirit of the Act, provide that a note, draft, or bill of exchange, the proceeds of which have been used for permanent or fixed investments, such as lands, buildings, machinery and other capital purposes, or which have been used, or are to be used, for investments of purely speculative character, or for the lending to some other borrower, shall not be eligible for discount.

Both the provisions of the Act and the regulations of the Board make eligible for discount obligations issued or drawn for the purpose of carrying or trading in bonds and notes of the government of the United States, when such obligations are of proper maturity. Further, the Federal Reserve Act was, in effect, amended by the War Finance Corporation Act, approved April 5th, 1918, whereby obligations of appropriate maturity, as

defined by the Federal Reserve Act, when secured by bonds of the War Finance Corporation, are made eligible for discount. However, notes, drafts or bills issued or drawn for the purpose of carrying or trading in other stocks and bonds are not eligible for discount.

Strict negotiability of instruments of commerce is one of the prime requisites of paper eligible for discount by a Federal Reserve Bank. This is for the reason that a member bank must endorse paper tendered for discount, not only for the purpose of placing the title thereof in the Federal Reserve Bank, but also for the purpose of assuming all the responsibilities of an endorser upon negotiable paper. To the end that such liability of member banks, as endorser, be preserved, the instrument tendered for rediscount must be strictly negotiable within the meaning of the law applicable to commercial paper in the particular jurisdiction.

The Federal Reserve Board has promulgated rules for the determination of the eligibility of paper for discount, which rules have to do merely with the method to be pursued by the Federal Reserve Banks in ascertaining the ultimate facts as to whether or not the paper is eligible under the provisions of the Act and the regulations of the Board; but such regulations are evidentiary in effect and have to do, not with the eligibility of the paper, but merely with the method of procedure in ascertaining its eligibility.

COMMERCIAL AND AGRICULTURAL PAPER ELIGIBLE FOR DISCOUNT

Notes secured by mortgage, if otherwise eligible, may be discounted.⁵ Inasmuch as notes payable "on or before" a given date are negotiable within the meaning of the Negotiable Instruments Act, in force in most of

⁴ *Ibid.*, 6: 1302.

⁵ *Ibid.*, 2: 679.

the states, and under the Law Merchant, such notes are eligible for discount.⁶ The assignment of an open account is not negotiable, and is not eligible for rediscount.⁷

A bill of exchange drawn by the seller on the purchaser of advertising space and accepted by such purchaser is a trade acceptance and is eligible for discount.⁸ The note of a farmer held by a member bank, given for the purpose of assisting the farmer to produce a crop or to fatten his cattle, is eligible for discount if of proper maturity, whether or not secured by mortgage.⁹ A note drawn for commercial purposes, otherwise eligible for rediscount, is not ineligible because it is secured by a mortgage on real estate.¹⁰ The notes of a water works company, the proceeds of which have been, or are to be used to provide funds for the pay roll, purchase of coal and the like, are eligible for discount.¹¹ The note of a packing company, the proceeds of which are used for the purchase of live stock for slaughter is not "based on live stock" within the meaning of Section 13 and is not eligible for discount if it has a maturity in excess of 90 days.¹² A certificate of participation in a note, which, itself, is eligible for discount, is not eligible.¹³ Water sold by an irrigation company to farmers and delivered through the company's ditches may be classed as "goods sold" within the meaning of the Board's regulations and a note representing the agreed purchase price thereof is eligible for discount.¹⁴ Natural gas actually sold and delivered is "goods sold" and a trade acceptance covering such is eligible for discount.¹⁵

The note of the owner of property

which is to be developed or built up, the proceeds of which note have been, or are to be used by him to pay for the work of developing or building, is not eligible for discount, but the note of an owner given in good faith to the contractor in actual payment of material and services furnished by him for the owner, may be considered technically eligible for discount as paper, the proceeds of which have been or are to be used for commercial or industrial purposes.¹⁶

Collateral notes of Federal Farm Loan Banks, secured by farm loan bonds or the note of a Joint Stock Land Bank, secured by its own bonds, are not eligible for discount.¹⁷ Federal Farm Loan Bank bonds are not eligible for discount, and are not, accordingly, eligible as collateral for member banks.¹⁸ A note, secured by paper eligible for discount, is not itself eligible for discount unless its proceeds have been used, or are to be used, for industrial, agricultural or commercial purposes.¹⁹ Under the present definitions of a trade acceptance, it seems that a draft drawn for an insurance premium would not be eligible for discount.²⁰ The note of a farmer given for a tractor to be used on his farm may be discounted as agricultural paper.²¹ A note given by a farmer for the purchase price of a commodity can be classed as agricultural paper eligible for rediscount when having a maturity in excess of ninety days, if the maker is to use the commodity for agricultural purposes, regardless of whether the note is discounted by the maker or the endorser; but if not intended for such use, then the paper is eligible for discount as commercial paper, if having a maturity not in excess of ninety days.²²

⁶ *Federal Reserve Bulletin*, 2: 394.

⁷ *Ibid.*, 2: 227.

⁸ *Ibid.*, 3: 116.

⁹ *Ibid.*, 3: 378.

¹⁰ *Ibid.*, 3: 458.

¹¹ *Ibid.*, 3: 527.

¹² *Ibid.*, 3: 616.

¹³ *Ibid.*, 3: 949.

¹⁴ *Ibid.*, 6: 949.

¹⁵ *Ibid.*, 4: 43a.

¹⁶ *Ibid.*, 6: 699.

¹⁷ *Ibid.*, 6: 609.

¹⁸ *Ibid.*, 4: 83.

¹⁹ *Ibid.*, 4: 108.

²⁰ *Ibid.*, 4: 309.

²¹ *Ibid.*, 4: 309.

²² *Ibid.*, 4: 312.

A member bank having acquired eligible paper in due course from a non-member bank may discount such paper with a Federal Reserve Bank.²³ A note, the proceeds of which is used for tilling or draining farms, may be classed as agricultural paper and is eligible for discount.²⁴ A note of a non-member bank, secured by notes of the government of the United States, and given for the purpose of carrying or trading in such notes of the United States, is eligible for discount when presented by a member bank.²⁵ A member bank may obtain the discount of its paper secured by government bonds for a period as long as ninety days, by acting through another member bank, although a member bank, acting alone, may not tender its collateral note to the Federal Reserve Bank for a longer period than fifteen days.²⁶ Silos are permanent improvements, and notes given for their purchase are not eligible for discount.²⁷ Where a railroad company purchases supplies and accepts the draft of the seller and the seller discounts the draft with a member bank, such draft is eligible for discount.²⁸ The six months' maturity privilege as applied to agricultural paper does not apply to the sales a manufacturer of implements makes to a dealer for re-sale to a farmer.²⁹ The actual sale of goods, and not what is generally termed a conditional sale, must be the basis of a trade acceptance.³⁰

A draft drawn to cover the purchase price of goods sold, plus the cost of installing those goods, is eligible for discount.³¹ A note is not eligible for discount as commercial paper unless made and endorsed by a party to the

commercial transaction, out of which it arises.³² This is but another way of saying that the proceeds must be used in the first instance for a commercial purpose by the borrower. It is merely emphasizing the thought that paper to be eligible, must be issued or drawn under such circumstances that, in the normal course of business, there will automatically come into existence a fund available to liquidate each piece of paper, that fund being the final proceeds of the transaction out of which the paper arose.

A note of a grain dealer or other purchaser of grain, given to a grower for grain purchased for re-sale, is commercial paper and is to be discounted as such, even though the grower subsequently discounts the note and uses the proceeds for an agricultural purpose. The same principle applies to a draft drawn by the grower, and accepted by the purchaser, in whole or in part payment for grain purchased for re-sale.³³ Here is brought into play the rule that the transaction out of which an instrument arises in the first instance determines its classification, irrespective of any transaction in which the instrument may be subsequently negotiated.

A note given for the purchase of a motor truck by a farmer is clearly held to be eligible for discount, as agricultural paper, but notes or trade acceptances given in the purchase of motor trucks of a corporation engaged in the business of furnishing motor transportation are not eligible for discount, as such trucks represent in a large extent the corporation's capital investment.³⁴

Paper, the proceeds of which are to be used to make loans to third parties, is finance paper rather than commercial or agricultural paper and is not eligible

²³ *Ibid.*, 4: 520.

²⁷ *Ibid.*, 4: 971.

²⁴ *Ibid.*, 4: 743.

²⁸ *Ibid.*, 4: 974.

²⁵ *Ibid.*, 4: 743.

²⁹ *Ibid.*, 4: 1118.

²⁶ *Ibid.*, 4: 863.

³⁰ *Ibid.*, 5: 964.

³¹ *Ibid.*, 4: 310.

³² *Ibid.*, 7: 1079.

³³ *Ibid.*, 7: 1199.

³⁴ *Ibid.*, 7: 191.

for discount.³⁵ Where a cold storage company uses the proceeds of its notes to make advances to customers who have placed their goods in the company's warehouse to be sold by the company for the account of the customers, and the customers give the storage company their notes for the amount of these advances, and as security for such notes, pledge the warehouse receipts, and the storage company pledges the customers' notes and the warehouse receipts as collateral for their own notes, such notes are not eligible for discount.³⁶ Growers' drafts accepted by cooperative marketing associations are eligible for discount with Federal Reserve Banks, as agricultural paper, and may have a maturity not in excess of six months.³⁷ The note of an irrigation company cannot be classed as agricultural paper, but a farmer's note, given to an irrigation company in payment for a supply of water, may be regarded as agricultural paper.³⁸

Notes of corporations or associations engaged in packing and marketing fruits should not be classed as agricultural paper, but as commercial paper, and such notes are eligible when their maturities do not exceed ninety days. The business of such corporations or associations in the marketing of fruits is a commercial business rather than an agricultural business.³⁹

THE FUNCTION OF BANKERS' ACCEPTANCES

As already noted, Federal Reserve Banks may discount, for their member banks, bankers' acceptances. A bankers' acceptance is defined by the regulations of the Federal Reserve Board as "a draft or bill of exchange, whether payable in the United States or abroad, and whether payable in dollars or some

other money, of which the acceptor is a bank or trust company, or a firm, person, company or corporation engaged generally in the business of granting bankers' acceptance credits."

The practice of banks to make acceptances is practically as old as the business of banking, but the practice never came into modern use in the United States until after the enactment of the Federal Reserve Act. Prior to that Act the average American bank merely collected the idle funds of the community and loaned them and its own funds to its customers. The bank loaned capital and not credit. On the other hand, the chief merit and the distinguishing feature of European banking systems, especially in England, France and Germany, was found in the bank acceptances by which those banks loaned their credit. They standardized bills of exchange and added new power to them, so that by virtue of their credit quality these bills became, part of the circulating credit of the country. The European banks found the acceptance to be the cheapest form of credit instrument. It did not deplete cash holdings of the accepting bank and no reserve was needed to safeguard the risk. This acceptance power of European banks enabled them cheaply to finance export and import transactions and, doubtless, to a large extent explains why, prior to the Great War, all such financing was done by European banks to the utter exclusion of the American banks.

This salutary method of financing transactions was grafted on our system by the Federal Reserve Act and following that Act most of the states have conferred the acceptance power upon their state banks by specific provision, so that the granting of acceptances by banks has come to be a part of the general banking business in this country.

³⁵ *Federal Reserve Bulletin*, 6: 1176.

³⁶ *Ibid.*, 7: 308.

³⁸ *Ibid.*, 7: 964.

³⁷ *Ibid.*, 7: 1199.

³⁹ *Ibid.*, 7: 1312.

THE DISCOUNT AND PURCHASE OF BANKERS' ACCEPTANCES

The Federal Reserve Act and the regulations of the Federal Reserve Board made pursuant thereto, and the Acts of the various states, have safeguarded the granting of acceptances by member banks. Indeed it may be said in broad general terms that bankers' acceptances, which have had their origin in accordance with the limitations of the Act and regulations, if not of more than three months' maturity, exclusive of days of grace, are eligible for discount by Federal Reserve Banks.

Federal Reserve Banks may discount any bill drawn by a bank or banker in a foreign country or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as provided in the Act and regulations of the Board, provided such draft has not more than three months' maturity, exclusive of days of grace.

Bankers' acceptances, to be eligible for discount, may involve: (1) the shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions, or between foreign countries; (2) a shipment of goods within the United States; or (3) the storage of readily marketable staples.

When the acceptance is based on a shipment of goods between the United States and any foreign country, or between the United States and any of its dependencies or insular possessions or between foreign countries, shipping documents covering goods in process of shipment need not be attached to the draft drawn for financing the transaction. Neither is it essential that each draft cover specific goods actually in existence at the time of the acceptance, but, in order that said drafts be eligible for discount, it is

necessary either, (1) that shipping documents or documentary export draft be attached at the time the draft is presented for acceptance, or (2) if the goods have not been shipped, that there be in existence a *bona fide* contract providing for the exportation or importation of such goods and that the customer agree that the accepting bank will be furnished in due course with shipping documents or with exchange arising out of the transaction. A contract between principal and agent will not be considered such *bona fide* contract.

In the case of shipment of goods within the United States, the regulations provide that shipping documents conveying security title should be attached to the draft at the time of its acceptance.

A bankers' acceptance based upon the storage of readily marketable staples must be secured at the time of acceptance by a warehouse, terminal or other similar receipt, conveying security title to such staples, and the acceptor must remain secured throughout the life of the acceptance.

The discretion of the Board with reference to bankers' acceptances and the investment therein of the Federal Reserve Bank funds is probably broader than its discretion with reference to notes, drafts, trade acceptances, and other bills of exchange.⁴⁰

The rule of the Board with reference to furnishing shipping documents in export or import transactions is not met by the furnishing of freight receipts or non-negotiable copies of bills of lading.⁴¹

Shipping documents are legally in the possession of an accepting bank when they are held by its correspondent or by some other independent party, as its agent, both in domestic and foreign transactions.⁴² The period

⁴⁰ *Ibid.*, 7: 70.

⁴¹ *Ibid.*, 7: 191.

⁴² *Ibid.*, 7: 191.

for which drafts may be accepted in the first instance should be approximately the same as that required to complete the shipment and finance the transaction involved.⁴³ A draft drawn by an American exporter, covering cotton consigned to his European agent, may be eligible for discount, when shipping documents covering goods actually shipped are attached at the time the draft is presented for acceptance, although the goods covered by the documents have not been sold, but are merely shipped on consignment to the agent abroad.⁴⁴

A Federal Reserve Bank may purchase a bankers' acceptance from the drawer or even from the accepting bank, but there is no obligation upon a Federal Reserve Bank to purchase paper offered it, even though the paper is technically eligible.⁴⁵ Where a farmer draws a draft on his local bank for three or four months, secured by bills of lading covering the shipment of cattle to the farmer for feeding, and the local bank accepts the draft and the farmer then discounts it with another bank, such draft is eligible for discount if it has a maturity not in excess of three months.⁴⁶

Bankers' acceptances, growing out of export or import transactions, having a maturity of not more than six months may be purchased in the open market by Federal Reserve Banks.⁴⁷ The "shipping documents" to be furnished banks accepting drafts growing out of export or import transactions mean an order bill of lading, or a straight bill of lading, whichever is issued by the carrier in the particular case. They do not include freight receipts or mere copies of original bills of lading, but these documents may be held by a correspondent or agent.⁴⁸ A

bankers' acceptance drawn by a cooperative marketing association, secured by warehouse receipt covering non-perishable agricultural commodities stored in warehouses independent of the association, is eligible for discount. The acceptance of drafts, secured by bills of lading, for the primary purpose of providing the borrower with working capital during the period required to manufacture and re-sell the goods covered by the bills of lading, is an abuse of a domestic acceptance privilege.⁴⁹ Drafts drawn by the purchaser of goods and secured at the time of acceptance by bills of lading covering the goods bought are not eligible unless the proceeds are to be used to pay for the goods.⁵⁰

A bankers' acceptance secured by a warehouse receipt covering an automobile or automobile tires is not secured by "readily marketable staples" and is not eligible for discount, but an acceptance secured by a bill of lading covering an automobile or automobile tires in the process of shipment, providing the acceptance otherwise complies with the terms of the law or the regulations of the Board, is eligible for discount.⁵¹ A bankers' acceptance is not eligible for discount if, at the time of its acceptance, the period required for a conclusion of the transaction out of which the original draft was drawn, shall have elapsed.⁵² A draft drawn abroad, payable in the United States in dollars, and secured by a warehouse receipt covering readily marketable staples stored in a warehouse in a foreign country, is eligible for acceptance by a member bank and for discount by a Federal Reserve Bank, if of appropriate maturity.⁵³

The Federal Reserve Board has defined a "readily marketable staple" as

⁴³ *Federal Reserve Bulletin*, 7: 308.

⁴⁴ *Ibid.*, 7: 419.

⁴⁶ *Ibid.*, 7: 815.

⁴⁵ *Ibid.*, 7: 699.

⁴⁷ *Ibid.*, 7: 545.

⁴⁸ *Ibid.*, 7: 191.

⁴⁹ *Ibid.*, 6: 1301.

⁵¹ *Ibid.*, 6: 65.

⁵⁰ *Ibid.*, 3: 380; 6: 66.

⁵² *Ibid.*, 5: 858.

⁵³ *Ibid.*, 5: 740.

an article of commerce, agriculture or industry, of such uses as to make it the subject of constant dealings in ready markets, with such frequent quotations of prices as to make the price easily and definitely ascertainable, and the staple itself easy to realize upon by sale at any time.⁵⁴

Under the terms of Section 13 of the Act, any draft or bill of exchange, which a member bank has the power to accept under the provisions of that section, is technically eligible for rediscount by a Federal Reserve Bank.⁵⁵

An accepting bank, secured in a domestic transaction by shipping documents or warehouse receipts, at the time of acceptance may release the shipping documents or warehouse receipts prior to payment, providing the draft or drafts accepted for one person do not exceed 10 per cent of the capital and surplus of the accepting bank.⁵⁶ Member banks may legally accept drafts drawn against them, secured by sugar placed in bond under transit entry and warehouse receipt issued by the collector in negotiable form.⁵⁷ National banks may not accept a draft which is secured by a chattel mortgage on cattle.⁵⁸ Where a dealer is engaged in purchasing the same character of goods for export and domestic use, a member bank accepting his draft drawn to finance an export transaction should require proper assurance that the proceeds of such draft will be used for the purchase of goods for export and that the acceptance will be paid out of the proceeds of sales of goods exported.⁵⁹

A trust receipt in the hands of an accepting bank which permits the purchaser of the goods to procure control of the goods is not actual security, within the meaning of the Act.⁶⁰ One in the possession of a bill of lading cov-

ering a domestic shipment of goods may not procure an acceptance thereon by a member bank without regard to the use to which the proceeds of the draft are to be put. There must be more than a casual connection between the drawing of the draft and the transaction involved.⁶¹ A warehouse receipt, to be appropriate security for an acceptance, should be issued by a warehouse which is independent of the borrower.⁶² Gold bars may be properly considered as "goods" and, accordingly, sixty day bills, when accepted by banks against such a shipment, would be eligible for discount. Exchange drawn to finance a shipment of gold coin from the United States to Europe or Canada, is eligible for purchase when otherwise in conformity with the Act and regulations.⁶³

A bankers' acceptance secured by a bill of sale of stock on hand is not eligible for discount.⁶⁴ A bankers' acceptance secured by chattel mortgage on cattle is eligible for discount⁶⁵ but the Board has ruled that a national bank may not accept a draft so secured.⁶⁶

PAPER MUST BE KEPT LIQUID

The conservation of the strength of the Federal Reserve System is dependent upon the strict adherence of the Federal Reserve Banks to the rules governing the eligibility of paper for discount. If those rules are adhered to, the portfolios of the Reserve Banks will be filled with liquid securities maturing from day to day, thus bringing into the banks a continuous flow of money to meet the demands of commerce and trade. On the other hand, if those rules are departed from, the portfolios of the banks will become clogged with "frozen credits," and the purpose for which the Reserve Banks were organized will be defeated.

⁵⁴ *Ibid.*, 5: 552.

⁵⁷ *Ibid.*, 4: 520.

⁵⁵ *Ibid.*, 5: 255.

⁵⁸ *Ibid.*, 4: 437.

⁵⁶ *Ibid.*, 4: 634.

⁵⁹ *Ibid.*, 4: 314.

⁶⁰ *Ibid.*, 3: 881.

⁶¹ *Ibid.*, 3: 380.

⁶⁴ *Ibid.*, 2: 684.

⁶² *Ibid.*, 3: 30.

⁶⁵ *Ibid.*, 2: 65.

⁶³ *Ibid.*, 3: 29.

⁶⁶ *Ibid.*, 4: 309.

Amendments to the Federal Reserve Act

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THE Federal Reserve Act has been amended a number of times since it became a law on December 23, 1913, but none of the amendments can be said to have affected any fundamental change in the structure or operation of the Federal Reserve System. Experience has indicated how the purposes of the framers of the Act could be advanced by further legislation, and how the Federal Reserve System could best serve the banks and the business of the country; Congress in the light of this experience has modified many of the provisions of the original act. But the principles upon which the Act was based, the functions of the Federal Reserve Banks and their relation to the member banks and to business and commerce, remain essentially unchanged. It will not be attempted in this chapter to discuss every amendment, for many of them are not considered of sufficient general interest to warrant mention in a work of this character; in many cases they relate solely to the internal administration of the Federal Reserve Banks.¹

ACCEPTANCE POWERS OF NATIONAL BANKS

The first important amendment was the Act of September 7, 1916. Probably the most far reaching change effected by this amendment was with respect to the acceptance powers of national banks. The Act, as originally passed, authorized member banks to accept only drafts and bills of exchange "growing out of transactions involving

the importation or exportation of goods." National banks were without authority to accept drafts in domestic transactions until, by the Act of September 7, 1916, they were given authority to accept drafts or bills in transactions involving the domestic shipment of goods or the storage of readily marketable staples, subject to certain prescribed conditions.

These conditions were that the bank issuing acceptances in such domestic transactions must be secured at the time of acceptance by shipping documents covering the goods in process of shipment, or by warehouse receipts or other similar documents covering the readily marketable staples in storage. There never has been any similar requirement of law with respect to acceptances in foreign transactions and it is important to note this distinction, for it is the basis for a more liberal practice in connection with the issue of foreign acceptances than has been adopted with respect to domestic acceptances.

Because of the requirement that documents representing the goods or staples must be in the possession of the accepting bank at the time of acceptance, it is obviously impossible that domestic acceptances be issued except when the goods or staples are identified and in process of shipment or in storage. The issuance of acceptances to finance foreign transactions has, however, been authorized prior to the commencement of the actual export or import shipment, in cases where the customer for whom the acceptances are issued is under a definite contract to export or import goods in the future. This has been authorized upon the

¹ For a complete list of amendments prior to January 1, 1921, see the Annual Report of the Federal Reserve Board for the year 1920, pages 316-326.

theory that the export or import transaction commences with the execution of the contract and that the subsequent acts in fulfilment of that contract are inherent parts of that transaction, and may, therefore, be financed by means of acceptances.

The Act of September 7, 1916, further broadened the authority of national banks to issue bankers' acceptances by permitting them, under regulations of the Federal Reserve Board, to accept ninety day drafts or bills drawn by banks or bankers in foreign countries or dependencies or insular possessions of the United States for the purpose of furnishing dollar exchange as required by the usages of trade in those places. Under the authority of this amendment the Federal Reserve Board has granted permission to member banks applying therefor to accept ninety day dollar exchange drafts drawn by banks or bankers in South American countries and in dependencies and insular possessions of the United States.

OTHER PROVISIONS OF THE AMENDMENT OF SEPTEMBER 7, 1916

Another important feature of the Act of September 7, 1916, was that it authorized Federal Reserve Banks to make advances for fifteen days to member banks on the promissory notes of the member banks when such notes are secured by paper which is eligible for rediscount or purchase or by bonds or notes of the United States. The provisions of the original Act did not permit Federal Reserve Banks to make advances or loans but permitted them only to rediscount eligible paper previously discounted by member banks.

The Act of September 7, 1916, amended Section 25 of the Federal Reserve Act so as to authorize national banks with a capital and surplus of not

less than \$1,000,000 to invest in the stock of foreign corporations. This amendment will be referred to in connection with the amendments of September 17, 1919, and December 24, 1919, which deal with the same general subject matter.

AMENDMENT OF JUNE 21, 1917

The second important amendment to the Act was that of June 21, 1917. Up to this time few state banks had joined the Federal Reserve System, largely because, by becoming members under the provisions of Section 9 of the original Act, they were made subject to the provisions of the National Bank Act, which prohibit national banks from making loans to any one person in excess of 10 per cent of the bank's capital and surplus, and were required to make reports of condition to the Comptroller of the Currency; also because Section 21 of the original Act required the Comptroller to examine state member banks at least twice a year. The argument was also made that under the terms of the original Act a state bank once having joined the Federal Reserve System had no right to withdraw. In order to make membership in the System more attractive to state banks and trust companies, Section 9 was rewritten. This section as it now reads exempts state bank and trust company members from supervision or examination by the Comptroller of the Currency and provides that "subject to the provisions of this Act and to the regulations of the board made pursuant thereto, any bank becoming a member of the Federal Reserve System shall retain its full charter and statutory rights as a State bank or trust company, and may continue to exercise all corporate powers granted it by the state in which it was created." It also contains a provision specifically authorizing

withdrawal from membership upon six months' notice.

The Act of June 21, 1917, also amended the first paragraph of Section 13 of the Act so as to authorize non-member banks, irrespective of whether their capital is sufficient to make them eligible for full membership, to clear through the Federal Reserve Banks of their districts checks deposited with them, provided that they maintain balances with such Federal Reserve Banks sufficient to offset the items in transit held for their accounts. While this privilege has not been availed of by non-member banks to any material extent, apparently because non-member banks are able to obtain the full benefits of the Federal Reserve check clearing facilities by sending checks deposited with them to correspondent member banks which in turn clear such checks through their Federal Reserve Banks, and while from a strictly legal standpoint the Act of June 21, 1917, in the form in which it was finally enacted, did not have any important bearing upon the check clearing and collection functions of Federal Reserve Banks, nevertheless a brief discussion of the subject of check clearing and collection seems appropriate at this point because it was discussed at length in both the Senate and the House of Representatives when Congress had the preliminary drafts of the bill under consideration, and because the provision added by this Act at the end of the first paragraph of Section 13 is frequently referred to in discussions relative to this general subject.

LEGAL ASPECT OF THE FEDERAL RESERVE CLEARING SYSTEM

In July, 1916, a country wide Federal Reserve check clearing and collection system was instituted, each member bank being required to remit at par for

all checks drawn upon it cleared through the Federal Reserve Banks. This was an inter-district as well as an intra-district system, the exclusively intra-district clearing systems, which had previously been established but membership in which had been optional with each member bank, having proved unsatisfactory. Simultaneously with the establishment of the country wide clearing system, the Federal Reserve Bank of Boston took over the country collection department of the Boston Clearing House and was able to collect checks on all banks in New England at par, that is, at the full face amount without the deduction of any exchange charge by the drawee banks. In the other districts it was not possible to collect at par checks drawn on all non-member banks because many of them desired to continue their past practice of charging exchange when remitting for their checks. From the first, however, it was contemplated that the Federal Reserve check clearing and collection system should be extended gradually until it furnished facilities for collecting at par checks on all banks in the country, thus eliminating the enormous tax with which business and commerce has been burdened by reason of the practice of making exchange charges.

In their origin there was some justification for exchange charges because such a charge then represented an actual expense which the remitting bank incurred in having currency transported from where the bank was located to the place of business of the holder of the check who had received it in payment of a debt. At the present time, however, there is no necessity for the actual transportation of currency between Federal Reserve districts, since the Federal Reserve System, through its leased wires connecting all Federal Reserve Banks and

branches and through its Gold Settlement Fund at Washington, offers facilities for the instantaneous transfer of available funds by mere book entry. The Federal Reserve System pays the entire cost of maintaining these leased wires and the Gold Settlement Fund, and the Federal Reserve Banks pay the cost of transporting currency from member and non-member banks in their districts if such member or non-member banks desire to make remittances for their checks in this manner. Consequently, the justification for exchange charges has ceased to exist and to the extent that such charges are still made they constitute a tax paid by business and commerce for which no compensating service is received.

Following the policy of extending the Federal Reserve check clearing and collection system the Federal Reserve Banks undertook to induce non-member banks to remit to them at par, and when able to make satisfactory arrangements, they also undertook to collect checks drawn on non-member banks which did not remit at par by having such checks presented at the counters of the drawee banks.

This practice caused some opposition on the part of the non-member banks which still desired to charge exchange and as a result of this opposition a provision was inserted in the bill pending in Congress in the spring of 1917 to the effect that nothing in the Federal Reserve Act should be construed as prohibiting a member or non-member bank from making reasonable exchange charges. The Senate passed the bill with this provision in it, but the sentiment in favor of par collection finally prevailed and in the bill as agreed to in conference between the committees of the Senate and the House, and in the Act as finally approved, this particular provision was

in effect nullified by the addition at the end of the paragraph in question, the first paragraph of Section 13, of the following clause: "but no such charges shall be made against the Federal Reserve Banks."

The policy of extending the Federal Reserve check clearing and collection system has been continued until now Federal Reserve Banks are able to collect checks drawn on about 28,000 out of a total of approximately 30,000 banks in the United States. The claim is made by some non-member banks which still persist in their desire to charge exchange when remitting for checks, that the final clause of Section 13 of the Federal Reserve Act should be construed as prohibiting Federal Reserve Banks from undertaking to make counter presentation of checks drawn on non-member banks which have not agreed to remit at par to the Federal Reserve Banks and this issue is involved in suits which have been instituted by such non-member banks against several of the Federal Reserve Banks.

AMENDMENT OF RESERVE REQUIREMENTS

Another important amendment accomplished by the Act of June 21, 1917, was the amendment to Section 19 of the Act changing the character and amount of the required reserves of member banks.

Section 19 of the Federal Reserve Act as amended by the Act approved August 15, 1914, before the Federal Reserve System was put into actual operation in November, 1914, provided that member banks in central reserve cities should maintain reserves equal to 18 per cent of their demand deposits and 5 per cent of their time deposits, and that member banks in reserve cities should maintain reserves equal to 15 per cent of their demand deposits

and 5 per cent of their time deposits, and that other member banks should maintain reserves equal to 12 per cent of their demand deposits and 5 per cent of their time deposits. Each class of member banks was required to keep only a part of its reserves in the form of balances with Federal Reserve Banks, another part being kept in the vaults of the member banks, and the member banks being given the option to carry the remainder either in their own vaults or as balances. This being the state of the law, a large proportion of the gold supply of the country remained in the vaults of member banks, where it constituted a part of the banks' lawful reserves.

The purchases in this country by the belligerent nations resulted in rapid accretions to this nation's gold supply and made it seem desirable to have a more effective means of controlling a possible over-extension of loans based upon these new accretions. On the other hand, the possibility of the rapid outflow of this gold at some time in the future made it necessary to provide for the most effective use of the gold supply, so that withdrawals might be arranged without forcing any violent contraction of loans and without causing any undue disturbance to legitimate business. For the accomplishment of these ends the mobilization and concentration of gold in the Federal Reserve Banks seemed the most effective means.

The first legislative move in this direction was the addition by the Act of September 7, 1916, of subsection 11(n) of the Federal Reserve Act providing that the Federal Reserve Board may permit member banks to carry in their Federal Reserve Banks any portion of their reserves heretofore required by Section 19 of the Federal Reserve Act to be carried in their vaults. When this country became

directly involved in the War the question of the mobilization of the gold reserves of the country became still more important and was the primary cause of the enactment of the Act of June 21, 1917. By this Act member banks were required to maintain the entire amount of their reserves in the form of balances with Federal Reserve Banks, the total reserves required against demand deposits being reduced to 13, 10 and 7 per cent for member banks in central reserve cities, reserve cities, and country districts, respectively, and the total reserves required against time deposits being reduced to 3 per cent for all member banks.

TRUST POWERS OF NATIONAL BANKS

After June, 1917, the Federal Reserve Act was not amended until September 26, 1918. This Act effected changes in a number of sections but the only one of general importance was the revision of Section 11 (k) relative to trust powers by national banks.

Under this section in its original form the Federal Reserve Board was authorized merely to grant to national banks "when not in contravention of state or local law, the right to act as trustee, executor, administrator, or registrar of stocks and bonds." National banks opening up trust departments, in accordance with authority granted to them pursuant to this section, were limited to the exercise of the four powers specifically enumerated, although competing state banks and trust companies might be permitted to exercise other fiduciary powers. Furthermore, the laws of some states specifically, or by necessary implication, prohibited the exercise of any fiduciary powers by national banks, so that it was "in contravention" of state law for national banks to exercise such powers, although competing state

banks might do so under the laws of the state. It became more and more apparent that national banks were laboring under a serious handicap in their competition with state institutions in the exercise of trust powers, and the amendment of September 26, 1918, was designed to put national banks upon equal terms with competing state institutions.

To this end the section was amended so as to include among the powers which the Federal Reserve Board could grant, the power to act as guardian of estates, assignee, receiver, committee of estates of lunatics, or in any other fiduciary capacity in which competing state banks are permitted to act. A provision was also inserted to the effect that whenever the laws of a state permit the exercise of fiduciary powers by competing state corporations, it shall not be deemed to be in contravention of state law for national banks to exercise such powers. Various other provisions were inserted to insure competition upon equal terms between national banks and competing state corporations, including that contained in the final paragraph of the section as amended to the effect that no permit shall be issued to any national bank having a capital and surplus less than the capital and surplus required by state law of state institutions exercising fiduciary powers.

The constitutionality of the original Section 11 (k) was upheld by the Supreme Court of the United States in the case of *First National Bank v. Union Trust Company*, 244 U. S. 416, in which it was held that Congress had power to grant to national banks authority to act in fiduciary capacities. The construction of Section 11 (k) as amended has been involved in a number of more recent suits. These suits have established that it is beyond the power of any state legislature to discriminate against national banks by prohibiting

such banks from exercising fiduciary powers and that it makes no difference whether such discrimination is attempted by an affirmative prohibition against the exercise of fiduciary power by national banks or by withholding from the courts the powers to appoint national banks in fiduciary capacities.

DISCOUNT LIMITATION ON SINGLE BORROWER

The Act of March 3, 1919, amending the Federal Reserve Act, was of importance to member banks because it substituted for the then existing Section 11 (m), which had become obsolete, a new Section 11 (m), authorizing the Federal Reserve Board to permit Federal Reserve Banks to discount for member banks the paper of a single borrower up to 20 per cent of the member bank's capital and surplus, provided that the paper is secured by United States bonds or notes issued since April 24, 1917, or by United States certificates of indebtedness. Under the terms of Sections 9 and 13 the amount of paper of any one borrower which a Federal Reserve Bank may discount for any one member bank is limited generally to 10 per cent of the member bank's capital and surplus.

Section 11 (m) was intended as a temporary measure to assist in the absorption by the investing public of the securities issued by the government during the War, and according to its terms the section ceased to be effective after December 31, 1920. This process of absorption was not deemed to have been completed by that date, however, and section 11 (m) was re-enacted with a slight modification by an Act of Congress approved February 27, 1921, to be effective until October 31, 1921.

FOREIGN BANKING AMENDMENTS

Acts were approved September 17, 1919, December 24, 1919, and June

14, 1921, all relating to the same general subject matter, namely, the investment by national banks in stock of corporations engaged in foreign banking and other international financial operations, and the organization and operation of such corporations under Federal law and subject to Federal supervision. After the close of the War it became apparent that the adequate financing of foreign trade would require credit facilities of a kind which could not properly be furnished by banks doing a strictly commercial banking business, and that such special facilities could be furnished in a large way only by corporations with authority to purchase foreign securities and paper representing long-term credits, and with authority to issue and sell to the public their own debentures secured by such securities and long-term paper.

The Act of September 7, 1916, had amended Section 25 of the Federal Reserve Act so as to authorize the larger national banks, that is banks with capital and surplus of not less than \$1,000,000, to invest in the stock of "banks or corporations . . . principally engaged in international or foreign banking." There seemed to be some doubt, however, whether this authority to invest in stock of banks or corporations engaged in banking gave the right to invest in stock of these debenture-issuing or investment corporations. Furthermore, it seemed desirable for the encouragement of such corporations to authorize investments in their stock by all national banks, both large and small. Consequently, the Act of September 17, 1919, was passed authorizing national banks until January 1, 1921, and without regard to the amount of their capital and surplus, to invest in the stock of corporations "principally engaged in such phases of international or foreign financial operations as may

be necessary to facilitate the export of goods, wares or merchandise from the United States or any of its dependencies or insular possessions to any foreign country."

Section 25, as thus amended, in terms authorizes national banks, upon the conditions and subject to the limitations therein stated, to invest in the stock of banks or corporations, of the specified kinds, which are "chartered or incorporated under the laws of the United States or any State thereof"; but, as a matter of fact, no provision was made for the incorporation under Federal law of such banks and corporations until the enactment of the so-called Edge Act, approved December 24, 1919.

This Act added to the Federal Reserve Act a section, designated Section 25 (a), which authorizes the organization of corporations "for the purpose of engaging in international or foreign banking or other international or foreign financial operations," thus permitting the Federal incorporation of both types of corporations referred to in Section 25, that is, banks doing a commercial banking business, and corporations issuing debentures and doing an investment business. The Act also describes the powers of such banks and corporations and gives to the Federal Reserve Board full power to examine, supervise and regulate their operations.

Section 25 (a) as originally enacted required that corporations organized under it should have a capital of not less than \$2,000,000, one-quarter of which must be paid in before the corporation is authorized to commence business, and the balance in ten per cent installments at the rate of one every two months. This requirement was modified by the Act approved June 14, 1921, which provides, in effect, that a corporation with an

authorized capital in excess of \$2,000,000 may apply for the consent of the Federal Reserve Board that such excess be paid in on call of the board of directors, provided, that in all events 25 per cent of the total authorized capital must be paid in before the corporation commences business.

THE SLIDING SCALE AMENDMENT

Finally, the Act of April 13, 1920, should be mentioned. Subsection (d) of Section 14 of the Federal Reserve Act authorized every Federal Reserve Bank to establish, subject to review and determination by the

Federal Reserve Board, rates of discount for each class of paper. The Act of April 13, 1920, added to this section language specifically providing that such rates "may be graduated or progressed on the basis of the amount of the advances and discount accommodations extended by the Federal Reserve Bank to the borrowing bank." The purpose of this amendment was, of course, to give to the Federal Reserve Banks and the Federal Reserve Board clear authority to require member banks habitually borrowing in excess of their legitimate requirements to pay higher discount rates for their excess borrowings.

Preparation for War and the Liberty Loans

By J. HERBERT CASE

Deputy Governor, Federal Reserve Bank of New York

AT the entrance of the United States into the World War in 1917 the readjustment of our credit and financial system to meet the unusual demands of the Public Treasury devolved in a large measure upon the Federal Reserve Banks. The financial activities of the government were soon to be extended upon a scale never before equalled by any country and the financial resources of the country were to be assembled and directed toward one purpose, winning the War. To accomplish this purpose would require highly developed sales organizations which would extend to every county and village in the country, and elaborate machinery for distributing the securities and collecting and disbursing the funds according to the Treasury's needs. More fundamental, however, was the necessity that our banking system should be able to meet the enlarged demands for credit incident

to war financing, without unduly curtailing the credit needs of commerce and industry.

PREPARATION FOR WAR BY RESERVE BANKS

The announcement of the entrance of the United States into the War, however, did not find the Federal Reserve Banks wholly unprepared to meet the new responsibilities. Precautions had been taken early in the year to maintain the Federal Reserve Banks in a strong condition with regard for the disturbed conditions of the world and the changing economic conditions in this country. This country, heretofore a debtor country, had become a creditor nation; gold was flowing in, and foreign securities were being marketed here in increased amounts so as better to permit belligerent countries to pay for heavy purchases of goods, purchases so heavy, in

fact, that there had already developed a feverish business activity. A change in affairs was foreseen and heavy credit demands anticipated in the eventuality of either our participation in the War or the conclusion of peace, and the opportunity was taken to fortify and strengthen the position of the Federal Reserve Banks.

Unnecessary expansion of credits was checked and a reduction was effected in the holding of such bonds and warrants as had previously been acquired primarily for the sake of income. The beginning of April, 1917, found the Federal Reserve Banks in a very strong position; the holdings of municipal warrants had been reduced to small proportions, the total earning assets of the Federal Reserve Banks had gradually been reduced from \$221,896,000 to \$167,994,000 since the beginning of the year and the reserve ratio of the twelve Federal Reserve Banks was about 85 per cent. Moreover, the report of the Comptroller of the Currency and of state banking authorities showed the banks of the country to be in a strong condition.

IMPOUNDING GOLD

In order that they might be prepared for any emergency, the Federal Reserve Banks, realizing their responsibilities as the guardians of the country's reserves, had adopted the policy of gradually building up their gold holdings in order that they might be used as a basis of credit expansion. There was a demand from the banks and the public for the new clean notes being issued by the Federal Reserve Banks, and the opportunity was taken to exchange these notes for gold and gold certificates. In issuing Federal Reserve notes, however, it was necessary to deposit as collateral with the Federal Reserve agent eligible commercial paper equal to 100 per cent of the

notes issued; but in the early days of the System the available volume of eligible paper was limited. Therefore, in order to make the exchange, it was necessary to adopt a circuitous method which may be described as follows: The Federal Reserve Bank of New York, for example, would pledge \$100,000 of commercial paper, obtaining in exchange Federal Reserve notes, and would then, as the Act authorized it to do, deposit gold to retire its liability for the notes and withdraw the paper. This operation would be repeated over and over again until enough Federal Reserve notes had been obtained to meet the demands for new currency. Moreover, the gold held as security for notes could not be used except as a 100 per cent fund to provide for their redemption and was held by the Federal Reserve agent specifically for that purpose.

For the purpose of further strengthening the System, the Federal Reserve Board in January, 1917, recommended a number of amendments to the Federal Reserve Act, and they were again transmitted to Congress during April and were adopted on June 21, 1917, substantially as recommended by the Board. One object sought by these amendments was to enable the Federal Reserve Banks more effectively to control the country's gold supply, and therefore the process of issuing notes was simplified by permitting their issuance either against gold or eligible paper, or both, as collateral. The Act as amended not only permitted gold to be pledged directly for notes, but allowed this gold to serve as the reserve required against the notes. The effectiveness of the gold reserves held by the Federal Reserve Banks was greatly increased and the adaptability of the System to the changing requirements of the public enhanced. After the passage of this amendment and our

entrance into the War, as a part of the redoubled efforts to impound the country's gold where it would serve its most useful purposes, both member and non-member banks were repeatedly urged to transfer their gold as it accumulated to the Federal Reserve Banks, and the appeal met with a hearty response.

The provisions concerning member

accounts with them for the clearing and collecting of their checks.

The success of the movement to accumulate gold is shown in Table I which gives for three years the country's monetary stock of gold, the gold holdings of the Federal Reserve Banks and the gold in general circulation, *i.e.*, outside the Treasury and the holdings of the Federal Reserve Banks:

TABLE I

TOTAL MONETARY STOCK OF GOLD, GOLD HOLDINGS OF FEDERAL RESERVE BANKS, GOLD IN CIRCULATION, 1917, 1918, 1919

Date	Total monetary stock of gold in the country	Gold held in U. S. Treasury	Gold holdings of Federal Reserve Banks	Gold in Circulation
January 1, 1917.....	\$2,864,842,000	\$233,945,000	\$737,787,000	\$1,893,110,000
January 1, 1918.....	3,040,439,000	212,231,000	1,558,116,000	1,270,092,000
January 1, 1919.....	3,080,510,000	327,239,000	1,916,656,000	836,615,000

banks reserves were likewise changed, first by reducing their required reserves to 13, 10 and 7 per cent for central reserve city, reserve city and country banks, respectively, and second, by requiring that their entire reserves should be carried as cash balances with the Federal Reserve Banks. These changes both augmented the gold holdings and increased their efficiency with a commensurate increase in the discount power of the Federal Reserve Banks. Member banks could no longer count as a part of their legal reserves, cash in their own vaults, and the privilege of country banks to keep a part of their reserves with reserve city banks was discontinued several months prior to the date originally fixed for such discontinuance. These changes increased the cash holdings of the Federal Reserve Banks by about \$250,000,000. At the same time non-member banks were encouraged to deposit their cash reserves with the Federal Reserve Banks and to carry

MOVEMENT FOR A GREATER MEMBERSHIP

As originally provided in the Act, all national banks are necessarily members of the Federal Reserve System but prior to the entrance of the United States into the War, the membership of the Federal Reserve Banks included less than fifty state banks and trust companies, and the combined resources of member banks were approximately one-half of the total banking resources of the country. Obviously this was a weak point in the System. In meeting a great credit strain or unusual financial problems, it was believed that the Federal Reserve Banks would be called upon to support indirectly the non-member banks through credits granted to member banks, which, in turn, would aid the state institutions.

In view of the country's needs and the part played by the Federal Reserve Banks in carrying on the War, it was soon generally recognized that a moral

and patriotic obligation rested upon state bankers to support the system. Immediately following the declaration of war there was a decided movement among the stronger state institutions toward obtaining membership, a movement accompanied by some pressure on the part of the larger member banks which were desirous of being relieved from the duty of financing these non-member institutions in case of emergency. The Federal Reserve Board had adopted a liberal policy in its regulations both as to terms of admission of state banks and as to their rights to withdraw at their discretion, but there existed among these institutions a feeling of uncertainty and a lack of assurance that these rulings would be permanent without legislative sanction. The action of Congress, therefore, in passing the amendment approved June 21, 1917, giving to state institutions the assurance that they might become members of the System and carry on their activities substantially as before and, in addition, giving them the definite right to withdraw from the System on six months' notice, accelerated the movement to obtain membership.

The climax to this movement for a greater membership was a letter from the President on October 13, 1917, to state banks and trust companies, in which he urged a complete mobilization of the banking reserves of the United States in order to meet the great financial requirements imposed upon the country by the War. In this appeal the President said in part: "I believe that coöperation on the part of banks is a patriotic duty at this time, and that membership in the Federal Reserve System is a distinct and significant evidence of patriotism." Under these various incentives and influences many of the stronger state institutions filed applications and were admitted

to membership. The progress of the movement towards greater unification of the banking system is shown by the fact that at the end of 1917 the membership of state banks and trust companies had increased to 250 and the Board in its Annual Report for that year estimated that the member banks represented approximately 75 per cent of the commercial banking assets of the country.

THE LIBERTY LOANS

While the President and Congress were wrestling with the problem of reorganizing our banking system, it had become generally recognized that the method of handling the government's finances through the Independent Treasury System was antiquated and the framers of the Federal Reserve Act happily inserted a clause authorizing the Secretary of the Treasury to require the Federal Reserve Banks to act as fiscal agents. At the beginning of 1916 the Reserve Banks began to act as fiscal agents of the government, but prior to our entrance into the War, their services had been limited to receiving deposits of receipts from customs and internal revenue and paying checks and warrants drawn by and on the Treasurer of the United States. But when the Treasury was confronted with the problem of raising and disbursing the huge sums necessary to carry on the War, the Reserve Banks became the chief agencies through which it operated; they became the administrative centers of the various Liberty Loan committees in addition to performing the minor fiscal agency functions. Floating the Liberty Loans was the paramount financial undertaking of the War; it was a task, the accomplishment of which necessitated arousing public opinion to a realization of the needs of the government and enlisting the support of every American.

SELLING LIBERTY BONDS

Perhaps I can best explain the methods used in selling government bonds by a brief description of the organization and work of the Liberty Loan committees in the Second District, with which I am most familiar. During the First and Second Liberty Loans, the responsibility for selling bonds in the second district rested largely upon volunteers from the various bond houses, banks and corporations which generously and patriotically contributed the services of their staffs. It was soon seen, however, that one loan was hardly completed before preparations for another one were being made, and it was realized that with each successive loan, as the novelty wore off, a more intensive campaign and more unified organization would be requisite in order to induce the public to do the necessary amount of saving and investing. Consequently a fixed establishment of paid employees was built up.

The central Liberty Loan Committee was the center and directing force around which the whole organization revolved. As finally perfected, it consisted of fifteen members, many of whom were heads of some of the largest banks and banking houses in New York. The chairman of the Committee was the Governor of the Federal Reserve Bank of New York. The Committee met frequently during the progress of the loans and determined the policies to be followed and the nature of the appeals to be made to the public.

One of the members of the Liberty Loan Committee was chairman of the distribution organization which had direct charge of sales and which was made up of bankers or partners in bond houses. The permanent staff of the distribution committee was headed by the director of distribution,

who was the executive in charge of the immense and very active bond-selling organization.

This district, with the exception of three boroughs of New York City, was divided into eight subdistricts and a member of the distribution organization was chairman of each subdistrict. These subdistrict chairmen formed the connection between their local Liberty Loan committees and the central organization. They acted as advisers to the local chairmen and transmitted to them the plans and material prepared at headquarters. The number of committees and subcommittees ran into the thousands. In every community an extensive volunteer organization was formed which carried the campaign direct to the individual in every branch of human activity.

To the army of Liberty Loan workers, men and women through whose energy and patriotism the millions of subscriptions were actually obtained, is due a large part of the credit for the complete success of the greatest financial operation of all time.

A publicity organization was established as a necessary part of the selling campaign. Its mission was to carry to every citizen in the district the message of the Liberty Loans and of America. This message was carried in a great variety of ways in the effort to disseminate the ideals for which America entered the War and to point out the financial needs of the government for winning the War. In the newspapers and magazines, on the billboards, houses, lamp-posts, vehicles, flagstuffs, and in the store and householder's window, the appeal appeared, showing the obligation of every American to participate in the work of winning the War. Frequent Liberty Loan meetings were held and many hundred men and women delivered the message in public addresses.

PARTIAL PAYMENTS

One of the most difficult problems from the standpoint of the physical handling of subscriptions in New York City grew out of the enormous number of applications for \$50 and \$100 bonds from persons who of necessity could purchase only on the partial payment plan.

The fact that there were but a relatively small number of banks located in the metropolitan area to handle the growing volume of these transactions threatened serious congestion in the banks. This situation, however, was successfully met by the formation of the Liberty Loan Association of Banks and Trust Companies of New York, which handled, through a coupon book system, approximately 2,400,000 separate partial payment accounts in connection with the Third, Fourth and Victory Liberty Loans. Under this plan, subscribers were allowed to make payments at any of about 1,400 payment stations designated throughout the metropolitan district as a convenience to subscribers and as a measure of relief to the banks.

The Liberty Loan Association, under the direction of the Federal Reserve Bank of New York, with a staff of approximately 450 clerks operated the system through which over 90,000,000 individual payments were received and over 2,000,000 separate bonds were delivered. As many as 17,500 people called at the office of the Liberty Loan Association at 19 West 44th Street, New York City, during a single day.

The importance of this undertaking is not to be measured merely by the number of bonds distributed. Countless individuals could not have purchased these securities on any other than the instalment plan, and much credit is due the banking institutions and the hundreds of other cooperating

agencies that made possible this great undertaking.

HANDLING THE LOANS

Up to the time of the First Liberty Loan, the Federal Reserve Banks had been operating with a comparatively small force of clerks, sufficient only to take care of the comparatively moderate volume of business which the banks had yet been called upon to do. It was not until after the First Liberty Loan campaign was actually under way that the officials in charge of the Federal Reserve Banks began to realize that their forces were totally inadequate to the magnitude of the task for the government which lay before them. The leading banks and investment houses were then appealed to for help and responded most effectively, willingly lending clerks, stenographers and even heads of departments and officers. In the Second District the force so loaned consisted of about 350 men who stayed with the Federal Reserve Bank until they were gradually replaced by a permanent staff just prior to the Second Liberty Loan.

It became necessary to develop special accounting systems, and control records in order properly and successfully to handle the issue, exchange and redemption of billions of dollars in government securities. Three separate departments were created to perform this work. One was organized to handle all operations in connection with the issue of bonds; another, to manage the sale and issue of certificates of indebtedness; and a third, to handle the collateral pledged by banks to secure government deposits. Something of the magnitude of the task performed by the government bond departments of the twelve Federal Reserve Banks may be seen from Table II which gives for the five Liberty Loans the record of subscriptions, allotments, exchanges and conversions.

TABLE II

SUBSCRIPTIONS, ALLOTMENTS, EXCHANGES AND CONVERSIONS FOR THE FIVE LIBERTY LOANS

Loan	Number of subscribers	Amount subscribed	Amount allotted	Number of pieces issued on allotments	Number of temporary bonds exchanged for permanent bonds. (Aug. 31, 1921)	Number of conversions (Aug. 31, 1921)
First.....	4,000,000	3,035,226,850	1,989,455,550	7,513,627	1,322,834	3,717,955
Second.....	9,400,000	4,617,532,300	3,807,865,000	14,938,073	5,610,948	12,317,448
Third.....	18,308,325	4,176,516,850	4,175,650,050	24,406,982	14,459,383	....
Fourth.....	22,777,680	6,993,073,250	6,964,581,250	33,024,445	17,405,606	....
Victory.....	11,803,895	5,249,908,300	4,497,818,750	17,498,172	....	636,960
Total.....	66,289,900	24,072,257,550	21,435,370,550	97,381,299	38,798,771	16,672,363

Other services of magnitude performed by the bond departments of the Federal Reserve Banks were exchanges of bonds of one denomination for bonds of another denomination, payment of coupons from all issues of Liberty Bonds and assistance rendered the Treasury Department in the registering of government bonds by receiving coupon bonds for registration and registered bonds for exchange into coupon bonds.

The current needs of the Treasury between the periods of bond issues and tax receipts were met by frequent issues of certificates of indebtedness of short maturities, which were also handled by the Federal Reserve Bank. These short credits proved to be a popular investment for our banking institutions and were periodically converted into long-time credits through the Liberty Loan bond drive and thus were distributed among individual investors. The issuance of certificates not only supplied a means of securing current funds but afforded a protection to the money market by distributing the receipts from loans and taxes over periods of time, thus avoiding periodic heavy withdrawals of funds from the

market. On October 31, 1921 there had been eighty-eight issues of certificates of indebtedness, both loan and tax, aggregating \$32,881,000,000 of which \$30,235,000,000 had matured and had been redeemed.

PAYMENT BY BOOK CREDIT

In order further to minimize possible disturbances in the money market the Federal Reserve Banks at the request of the Secretary of the Treasury extended to banks the privilege of paying for their subscriptions to Liberty Bonds and certificates of indebtedness by book credit, which simply means creating a deposit in favor of the government to the amount of the subscriptions. These deposits were withdrawn gradually from the banks on a pro rata basis as needed by the government. The Federal Reserve banks as fiscal agents were required not only to keep records of these deposits and withdrawals, but also to receive and hold collateral against them; at times these deposits amounted to about a billion dollars and the Federal Reserve Banks were required to handle many billions of dollars of collateral in connection therewith.

SUBCOMMITTEE ON MONEY

The desirability of having an orderly money market was generally recognized and on September 5, just prior to the offering of the Second Liberty Loan, a subcommittee of the Liberty Loan Committee of the Second District was appointed for the purpose of securing the most complete coöperation with the government in its financial program by all the financial interests of the city. This committee was composed of the Chairman of the Liberty Loan Committee, as chairman, and the presidents of eight of the largest financial institutions.

The policy of this subcommittee on money was to prevent the absorption of an excess amount of credit by the security market which might interfere with the orderly marketing of the government's loans, and at the same time to assure that sufficient funds would be available to maintain a reasonably healthy security market in order to facilitate the successful placing of Treasury issues. It was considered of great importance that reasonable and necessary control be exercised over the employment of credit in order to insure no interference with the financial operations of the government in conducting the war.

This committee enjoyed the fullest coöperation of the governors and members of the New York Stock Exchange who unselfishly placed in the hands of the subcommittee confidential information which would enable the committee to take such steps as were calculated to maintain an orderly money market.

MEETING THE DEMAND FOR CREDIT

The success of the Liberty Loans depended in large measure on the individual banks throughout the country. But the extent of their coöperation in turn depended upon the financial sup-

port which they felt they could secure from the Federal Reserve Banks. It soon became evident that the savings of the people in spite of the various thrift campaigns would not prove sufficient to meet the tremendous demands of the government and that a substantial portion of its borrowings would have to be met through bank credit. The banks supplied this credit both by subscribing to the loans themselves and by extending credit freely to their customers who borrowed in order to buy government obligations.

In fact, in order to insure the success of the government's financial measures, banks, life insurance companies, general business corporations and individuals were urged to subscribe heavily to the Liberty Loans without regard to their immediate ability to pay for them. Preferential discount rates were established by the Federal Reserve Banks in favor of paper secured by United States Government obligations and easy terms of payment promised by the individual bank to induce a sufficient flow of funds from the banks and the people to the government. With the coöperation of and by the support they gave to the individual banks of the country, the Federal Reserve Banks expanded the credit structure sufficiently to meet the needs of the great emergency.

The "borrow and buy" method of securing funds leads to inflation, to be sure, with all its consequent ills, but any method of financing a war, except solely out of the savings of the people, would have the same result. War financing always involves credit expansion unless private savings increase commensurate with government requirements. Try as we may, we cannot get away from this fact. We may safely say that the difference between the government's requirements for funds, as expressed in the securities

sold, and the volume paid for out of savings, represents a good part of the recent credit expansion. But it could hardly be expected that private savings would keep pace with the phenomenal demands of the government during the World War. Certainly no opportunity was neglected to impress upon the public the fact that they should save to the limit. While the Federal Reserve Banks were conducting a campaign urging increased borrowing as one means of selling Liberty Bonds, an equally intensive campaign urging upon the people the necessity for thrift and rigid economy was being conducted by the same banks under the direction of the Liberty Loan and War Savings committees, as well as by various other government agencies. The Food Administration, for instance, was active in this regard.

Furthermore, a campaign was carried on under the direction of the Capital Issues Committee for the purpose of conserving capital, labor, materials and transportation facilities for their most effective use in the prosecution of the War. There was a local capital issues committee in each district which reported to the central committee on all applications for permission to issue securities for the purpose of financing public or private corporate expenditure.

The Capital Issues Committee of the Second District, although in existence less than a year, considered formal applications for issues amounting to \$2,069,000,000, besides numberless cases where no formal applications were filed notwithstanding the fact that when the Committee was first appointed, the submitting of applications covering private issues was largely voluntary.

The record of the Federal Reserve Banks during the War, in my judgment, is one of splendid achievements. They not only organized and directed the sales campaigns and handled the details of every loan, but also by the support given to the individual banks of the country made possible their hearty coöperation and guaranteed the success of every loan. It is a cause for deep gratification that the banks and the people through efficient methods and organization were able to supply the government with such unprecedented sums to meet its needs in carrying on the War. That five great loans, aggregating more than \$21,000,000,000, were rapidly and successfully distributed with hardly a ripple in the financial markets, is of itself a great testimonial to the new banking system which has now been thoroughly tried and has successfully met the test.

The Assumption of Treasury Functions by the Federal Reserve Banks

By MURRAY S. WILDMAN
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THE Independent Treasury as it functioned for three quarters of a century was an institution unique in the field of public finance. It grew out of the general demoralization of the banks which followed the panic of 1837

and the downfall of the Second Bank of the United States. When the Act of 1841 was passed, followed by the more adequate Act of 1846, the need for such legislation was real and urgent. On the theory that the establishment and

regulation of banks was a duty of the states, the care of Federal funds called for a Federal agency. When in 1863 that theory was abandoned, the justification for the subtreasuries passed away with it; but in twenty years these institutions had become rooted in our political system.

AN OUTGROWN AND OBJECTIONABLE SYSTEM

As long as a government agency is merely useless it may be left alone. The subtreasury buildings are substantial and impressive features of our cities; they housed several hundred officials and clerks, some of whom were devoted aids of the administration which they served, and it was not enough to show that the maintenance of this establishment involved a waste of money. Before the Independent Treasury could be abolished it must be shown as responsible for positive harm.

The important ground of objection to the subtreasuries was their evil influence in the money market. The harm that they did was real and substantial, although it was obscure. The great hoard of coin and bullion and legal tender notes, which was kept behind massive steel bars and approached through dismal passages between granite walls, while it impressed the tourist, would have brought dismay to the borrower of funds if he had been fully alive to his interest. It was not merely the impounding of cash that called for condemnation of the system but the recurrence of large payments as well. The alternate collection and disbursement of the revenues brought alternate contraction and expansion of the bank reserves and consequent changes in discount rates, which, in turn, disturbed the markets for staple products and securities.

The establishment of the national

banking system during the Civil War should have been followed promptly by the abandonment of the Independent Treasury, but at that particular period the banking business was not popular. The needed reform must wait for another time of great financial stress, and for a reorganization of the banking system on the principle of a single national cash reserve under Federal control.

THE NEW POLICY

The legislative acts which make definite provision for the new policy are two. Section 15 of the Federal Reserve Act of December 23, 1913, provided that "the moneys held in the general fund of the Treasury . . . may be deposited in Federal Reserve Banks, which banks . . . shall act as fiscal agents of the United States . . . and disbursements may be made by checks drawn against such deposits."

The other measure is found in the General Appropriation Act of May 29, 1920, which repealed the Act of 1846 in so far as it provided for subtreasuries, and required the Secretary of the Treasury to transfer the duties of the Assistant Treasurers of the United States to the Treasurer, the mints and assay offices and to the Federal Reserve Banks.

This Act of 1920 was belated. As intimated above, the officers and the employes of the subtreasuries owed their appointments to political influences. The original intention of the framers of the Federal Reserve Act was to have the subtreasuries taken over by the Reserve Banks. But, as the bill developed out of the economic and into the political stage in Congress, discussion arose and political force was asserted. "The moneys held in the general fund of the Treasury shall be deposited" in Section 13 became "may

be deposited" and the Secretary of the Treasury held the power of decision.

After the Reserve Banks were opened and had been officially designated as fiscal agents of the government, the Treasury made comparatively little use of them. Other bank depositaries were retained and treasury funds were placed for "crop-moving purposes" as in the past.

There was naturally adverse criticism. From official sources came pleas and explanations that the subtreasuries were convenient to the public, if not indispensable to the government, and the cities where they were located had their fears aroused that they were to be deprived of something of value to them. The criticism persisted, however. In the end the matter was referred, in March, 1917, to the Bureau of Efficiency for investigation and report to Congress.

The investigation was thorough and the report, made January 26, 1918, was most competent. The report concluded as follows:

The Bureau of Efficiency recommends the ultimate abolition of the whole subtreasury system. It believes not only that the government will save money by this change, but also that the public will in the end be better served. It will be appreciated that in making this recommendation the Bureau of Efficiency seeks only to serve the public interest. If, however, the subtreasuries are to be continued, the Bureau of Efficiency suggests the following as a minimum program:

The elimination of the three subtreasuries—Baltimore, Philadelphia and Cincinnati—which are of no essential value to the system;

The abolition of the post of assistant treasurer everywhere and the transfer of responsibility to the cashiers;

A reduction in the amount of coin-exchange business undertaken at the subtreasuries and by the cash room of the Treasury in Washington through the charging of a fee for receiving or paying out current coin;

The concentration of all the redemptions of paper currency in Washington;

Scarcely less than this can be done for the good of the Treasury and the people.

The effect of the legislation of 1920 was to make mandatory what had hitherto been permissive only. But the change of policy which these acts reveal had been slowly evolved out of a long and unhappy experience in the management of both public and private funds. The realization of the proper relation between Treasury and banks has been growing through a period of many years of nominal independence. It was made clearer by every financial crisis through which the country passed that real independence was impossible. Points of contact between Treasury and banks were established for greater convenience and economy in the handling of funds, and a relation of mutual dependence was tacitly recognized.

RELATION OF TREASURER TO BANKS 1865-1913

In order to save labor to both officials and the public, the subtreasury at New York was made a member of the clearing house on the resumption of specie payments, January 1, 1879. In the latter months of the Civil War and for several years thereafter the extensive collection of internal revenue as well as the necessities of postmasters led to the designation of certain national banks as United States depositaries. When a few years later depleted bank reserves coincided with surplus revenues in the Treasury, aggravating the stringency of the money market, the government adopted the policy of designating other national banks as special depositaries of public funds. Large sums were paid into these banks for the single purpose of putting idle cash to commercial use.

From the point of view of economical use of funds, bank depositors may be

divided into two groups: those who use banks for the safe-keeping of money, and those who use banks as agencies for the collection and payment of bills. The first class is typified by the savings depositor; the second, by the commercial depositor. The customary operations of the savings bank involve the receipt and payment of cash while the customary operations of the commercial bank involve the receipt and payment of credit instruments. In the latter case, cash is required only for a reserve, and this reserve is only occasionally brought into use. The result is that payments in and out of the commercial bank may vastly exceed the amount of cash employed. The public advantage in the use of this bank lies in the fact that a given amount of cash, when used as a reserve against deposits or notes, will accomplish much more than when used in payment directly.

In its use of national or state banks as public depositaries the Treasury never assumed the rôle of a commercial depositor in the sense here described. Funds were placed in the custody of the banks and in due course were ordered to be remitted to the Treasury. Ordinary disbursements were made by warrants drawn on the Treasurer and not by checks drawn on the banks. These so-called deposits were in reality loans to the banks in so far as the special depositaries were concerned. The banks held the funds for a definite period, paid interest on them and gave security for them. The term "deposit" was a misnomer and the practice of placing funds with the special depositaries could not be carried out without calling forth the charge of favoritism. The attitude of the public toward the banks selected to act as regular depositaries was somewhat different. These were chosen to serve the convenience of the government, but even here special collateral security

was exacted and the relation of bank and depositor was not a normal one. There were no true active checking accounts maintained by the Treasury.

SITUATION 1913-1916

When the Federal Reserve Act was passed in 1913 there were 850 regular depositaries and 685 special depositaries, together holding \$76,000,000, and all of the subtreasuries except the one at Philadelphia were members of the clearing houses of the cities in which they were located. To that extent the independence of the Treasury had been abandoned. From the establishment of the Federal Reserve Banks there was a rapid evolution of a new policy on the part of the Treasury. The twelve Reserve Banks were designated public depositaries some time after they were ready for business. In the twelve cities in which these banks were established all other government deposits were discontinued, except that in some cases Federal court funds and postmasters' funds remained where they had been previously kept.

But the use of the Federal Reserve Bank as a depositary involved an important change in the attitude of the Treasury in that these banks gave no collateral security for the funds held. Moreover, the funds were used by the Treasury as checking accounts; indeed, in some cases the Treasury received temporary advances of funds against an approaching issue of loan certificates, and so, for the first time since 1846, the Treasury became a bank depositor and borrower in the common acceptance of these terms. But this change of attitude in 1914 was cautious and incomplete. The major part of the public revenue and expenditure continued as before to pass through the subtreasuries. At the close of the fiscal year, June 30, 1916, the distribution of the general fund was as follows:

In Treasury offices.....	\$180,534,179.97
In Federal Reserve Banks	113,480,576.00
In national bank depositaries.....	62,833,774.43
In Philippine Treasury..	3,968,122.73

The foregoing statement takes no account of the great trust funds held and administered by the treasury.

EFFECT OF THE WAR

The event which established the necessity of the new policy was our own entry into the World War and the great financial operations which ensued. Soon after war was declared it came to be the general understanding that our chief contribution to the joint enterprise would be in the field of finance and supply. To this end measures were adopted for the handling of funds of unprecedented magnitude with the least possible friction. Immediately on the passage of legislation providing for the first Liberty Loan, steps were taken to correlate the banks of the country with the Treasury for most effective team work. By the middle of November, 1917, the number of national banks designated as public depositaries was raised from 518 to 1,903. State banks and trust companies were pressed into service and 1,343 of these were named as public depositaries. In the Treasury circular of May 29 it was provided not only that banks so designated should hold on deposit to the credit of the government the funds received by them in the sale of bonds, but also that, when the funds should be required from the banks, the transfer should be made by a draft against the balance carried by the depositary bank in the Federal Reserve Bank in favor of the account of the Treasury in the same Federal Reserve Bank. That is to say, payments on government account should be made by use of the bank's credit and with no reduction of its stock of cash.

Not only were these rules applicable to receipts from the several Liberty Loans but also to receipts from income taxes and excess profits taxes, as well as from the sale of certificates of indebtedness which succeeded one another in rapid succession throughout the War and the following year. It was the custom of the Treasury to leave the credit as long as might be in the local depositary banks where it would serve the business community to the greatest possible degree, and require transfer to government account in the Reserve Bank only as it was actually needed, thence to be disbursed by government check. These transfers of credit were made ratably throughout the country—a certain percentage of the deposit on a specified date. The result of this policy was to make the depositary banks collection agencies of the government, while the Reserve Bank of each district became a disbursing agency to a degree unknown in the past. The effect of these operations on the distribution of the general fund at the end of the fiscal year 1917 is shown below:

In Treasury offices.....	\$107,662,952.07
In Federal Reserve Banks	300,671,632.42
In special depositaries...	783,922,959.51
In regular depositaries...	49,681,738.91
In Philippine Treasury..	2,081,409.76

In order to appreciate the effect of the new policy upon the business of the Federal Reserve Banks it is only necessary to remember that the ordinary disbursements of the Treasury rose from a total of 682 millions in 1913 to 15,365 millions in 1919. The premises of the Reserve Banks became scenes of the greatest activity. New and larger quarters had to be taken, branch banks were established, and the employed personnel grew from 920 at the end of 1916 to 9,459 at the end of 1919. In the same three years the number of

state banks admitted to membership grew from 37 to 1,481, and the gold reserve from 738 millions to 2,063 millions.

CHANGES UNDER ACT OF 1920

From this showing it may properly be inferred that the expansion involved in the transfer of the duties of assistant treasurers under the mandatory act of 1920 had already taken place before the act was passed. By the terms of the law a period of thirteen months was allowed for making the change. The Secretary of the Treasury was permitted to assign the duties of the assistant treasurers to the treasurer, the mints and assay offices and to the Federal Reserve Banks, in such manner as might in his opinion best promote the public interest. It was provided further that the Secretary of the Treasury might assign to the Federal Reserve Banks such rooms, vaults and equipment as might be needed, and the employees of the various subtreasuries should have preference in application for positions in other departments of the government. However, most of them were taken over by the Reserve Banks.

In order that the transfer of business might go forward with the least disturbance of routine the change was made by degrees. The subtreasury at Boston was closed on October 25, 1920, that at Chicago, November 3; New York, December 6; San Francisco, December 20; New Orleans, January 5, 1921; St. Louis, January 8; Baltimore, January 14; Philadelphia, February 3, and Cincinnati, February 10.

In the case of six of these cities the work was taken over by the Reserve Banks located there, but in New Orleans, Baltimore and Cincinnati the functions of the subtreasury were transferred to branches of Reserve Banks located in those cities. But functions of the Independent Treas-

ury were not confined to banks and branches in the nine cities in which subtreasuries were to be found. By Treasury circulars issued August 30 and October 19, all the Federal Reserve Banks and their branches were definitely constituted fiscal agencies of the United States Treasury. The effect of this was to extend the facilities formerly available in only nine cities to thirty-five cities at the outset and to as many more as might be favored with a branch bank in the future.

One important duty of the subtreasuries had been to account for the special trust funds such as the gold coin held against United States notes, gold coin and bullion held against gold certificates, and the silver dollars held against silver certificates. The care of these funds was transferred to the Treasurer of the United States at Washington, to be assisted as may be desirable by the mints and assay offices.

TREASURY DUTIES OF RESERVE BANKS

The new duties now devolving upon the Reserve Banks are:

The receipt of gold coin and silver dollars for exchange; the receipt of United States notes, Treasury notes, gold and silver certificates, subsidiary and minor coin for redemption; the exchange of various forms and issues of money for others; the cancellation or cleaning of currency unfit for circulation; the receipt from depositary banks of internal revenue, customs, postal and other funds; the receipt of deposits from other than depositary banks for money payable to the government from many sources; the payment of United States interest coupons; the payment of checks and warrants drawn against the Treasurer, and the receipt of government funds for transfer to other points.

From what has been said it will be clear that the actual abandonment of the Independent Treasury did not greatly augment the work of the Reserve Banks. For example, on the date of transfer the bank at New York already held \$11,298,000 of government deposits, while the subtreasury in that city, whose normal business was far greater than that of any other, held only \$1,448,000. This sum was all in coin. The building was turned over to the use of the bank under a lease but the title remains in the government. In Minneapolis, where there was no subtreasury, the assumption of the new duties was not so easily effected. The vaults of the bank were not adequate to meet the new demands and outside vault space was rented. Moreover, the clerical staff was considerably enlarged. In San Francisco the entire staff employed in the subtreasury was taken over by the bank. The building was occupied under a lease and is used as a place of storage of coin,

currency and bonds, and for the housing of such employes as are required for the custody and exchange of these bonds.

SIGNIFICANCE OF THE NEW POLICY

The importance of the change therefore consists not in the magnitude of the new enterprise which the Reserve Banks have undertaken but in the significance of it. For all this coin and currency, insofar as it belongs to the general fund, now becomes a part of the banking reserve of the country. Large disbursements of government funds will never again stimulate speculation on the stock exchanges nor will the collection of a great surplus of revenue cause a chill in the markets of staple products. By adjustments through the Gold Settlement Fund maintained by the Federal Reserve Board at Washington the Reserve Banks will be able to make the largest payments, collections and transfers without affecting the magnitude of the reserves at any point.

The Establishment and Scope of Branches of Federal Reserve Banks

By E. R. FANCHER

Governor, Federal Reserve Bank of Cleveland

THE establishment and operation of the Federal Reserve Banks and branches is the direct result of intensive research and study on the part of economists, financiers and statesmen regarding the inadequacy of the banking system of the United States as developed under the national banking system, established in 1863, remodeled by enactment of Congress in 1864, and patched up from time to time by more than sixty legislative amendments. The national banking system as it formerly existed, was sup-

plemented by the state banks and trust companies created by state laws, all functioning independently or separately. The entire system passed through various so-called panics up to 1907, at which time the attention of the whole country was brought sharply to the inherent weaknesses of our banking and credit system, while the crisis of that year compelled definite action along remedial lines. The system had proved inadequate to cope with modern commercial needs. It failed to supply commerce and in-

dustry with adequate credit facilities in normal times, and in times of financial stress it broke down completely, spreading disaster and ruin throughout the land.

The Aldrich-Vreeland Currency Act, approved by the President May 30, 1908, in providing for emergency currency based upon certain classes of securities other than government bonds, authorized the uniting of ten or more national banks in any one city or community into a "National Currency Association." It may be stated that that law was the beginning of the regional idea, and of its later development into the thought of additional services and convenience to areas, communities or centers, which has brought about establishment of branches of Federal Reserve Banks. The National Monetary Commission was also authorized by the Aldrich-Vreeland Act.

BRANCHES OF FIRST AND SECOND BANKS OF THE UNITED STATES

Alexander Hamilton's original plan for the First Bank of the United States, organized in Philadelphia in December, 1791, did not contemplate the establishment of branches; but early in 1792 branches were opened in New York, Boston, Baltimore and Charlestown, and later, additional ones were opened at Norfolk, Savannah, Washington and New Orleans, making in all, eight branches.

In stating the advantages derived from the bank by the government, Secretary of the Treasury Gallatin laid stress upon the safe-keeping and transmission of the public funds, the economical collection of the revenue, and the aid furnished to the government in the matter of loans. The punctuality of payments introduced by the banking system, and the facilities afforded by the bank to importers indebted for revenue bonds, were

among the causes which had enabled the government to collect with such facility and with so few losses, the great revenue derived from imports. The numerous state banks might afford considerable assistance to the government in its fiscal operations, but they could not effect the transmission of public funds with the same facility or to the same extent as the Bank of the United States through its several branches.

The Second United States Bank, chartered in 1816, commenced operations in January, 1817, and by October, 1817, nineteen branches in fourteen states had been designated, and, subsequently, eight other branches or agencies were established.

The establishment of branches was the most characteristic and the most essential feature of the plan of the First and Second Banks of the United States. Without them they would have been virtually useless to the government, unable to exercise an efficient control over the state banks, and incapable of furnishing accommodations in discounts and exchange throughout a country unprovided with a note circulation of uniform value, or with any extended currency.

The general control of the branches was almost wholly in the power of the central directorate through its authority to appoint the local directors and to create by-laws for the branches, the election of the president being the one important privilege left to the uncontrolled will of the branch directorates. It was, of course, essential to the safety of the bank, to the security of its operations and to the unity of its policy, that the control of the central board over the branch officials and directors should be real and effective.

Both the First and Second Banks of the United States became involved in

political strife without any intention of their own and in spite of their earnest efforts to avoid such entanglements.

These two central banks were very largely government instrumentalities; out of them grew the independent treasury system established in 1846, and from that time until the Civil War the government made its collections and disbursements entirely in specie and kept its funds in the Treasury and its branches, called subtreasuries. Important changes were made in this system during and after the war, bringing the Treasury into close relations again with the banking and credit system of the country.

THE INDEPENDENT TREASURY AND ITS BRANCHES

The national banking system, established in 1863, grew out of the financial difficulties of the Civil War. After the adoption of the independent treasury system in 1846, the government had no relation with the banks of the country, keeping its funds with the various subtreasuries established in several leading cities. When the war broke out the government was compelled to turn to the banks for help. Instead of meeting the war expenses by taxation, it resorted to loans, which could be obtained quickly only from the banks.

The policy of separating the fiscal activities of the government from banks and banking—which was adopted with the establishment of the independent treasury system—was discontinued when the national banking system came into existence, and thereafter the subtreasuries became largely depositaries of surplus coin, distributors of currency and coin, and redemption agencies.

Under the Aldrich-Vreeland Act there were formed no less than eighteen national currency associations, and in

the bill suggested by the National Monetary Commission, as a result of its investigations, provision was included for a central reserve association, for at least fifteen branches of the parent association and for further districts when necessity might arise. All through the studies of the National Monetary Commission and in the various important writings of financiers and economists, the necessity for adequate accommodations in industrial communities or centers, the interest of which might demand direct personal contact with properly accredited representatives of the parent institution, was recognized.

POPULAR OPPOSITION TO CENTRAL BANKS

Throughout the history of the country, it is apparent that the people have been opposed to placing in one single institution the financial power which a central bank might exercise. This was manifest in the failures of both the First Bank of the United States and the Second United States Bank to secure charter renewal; and the antagonism which was most apparent during the administrations of President Jackson continued and asserted itself in the preparation of the legislation that finally resulted in the enactment of the Federal Reserve Act, approved by the President, December 23, 1913.

Division of the United States into regions, as begun in the formation of the Currency Association, prevailed in the Act; and the establishment of not exceeding twelve independent Federal Reserve Banks with power in each of the banks to establish and operate branches was provided.

The original law, Section 3 of the Act, was as follows:

Each Federal Reserve Bank shall establish branch banks within the Federal

Reserve district in which it is located and may do so in the district of any Federal Reserve Bank which may have been suspended. Such branches shall be operated by a board of directors under rules and regulations approved by the Federal Reserve Board. Directors of branch banks shall possess the same qualifications as directors of the Federal Reserve Banks. Four of said directors shall be selected by the Reserve Bank and three by the Federal Reserve Board, and they shall hold office during the pleasure, respectively, of the parent bank and the Federal Reserve Board. The Reserve Bank shall designate one of the directors as manager.

The Organization Committee, provided in the Act, gave consideration to these provisions and reported at length regarding the development of branches. The final recommendations of the Committee, in part, were as follows:

It is recommended that in the event of the establishment of such branches they be assigned a proportionate capitalization based upon the capitalization and surplus of the member banks included within the territory assigned to the branch. This, however, should be only a tentative matter, and such assignment of resources should be merely to bridge over the period during which it is found from experience about what amount of paper will on the average be presented by the banks in each branch district. When sufficient experience has been had to determine this point the resources to be employed should be distributed among the branches in proportion to the quantity of paper presented on the average by the member bank in each such branch district.

It is recommended further that the parent bank of the district shall in every case retain for itself a substantial portion of the district as a territory from which paper shall be directly presented for rediscount. This would mean simply that the branch districts would be established whenever there was a special need for them in a particular part of a district which presented a clear cut, independent trading

area, whose territory was an economic unit and whose member banks naturally stood in close relationship to one another. The suggestion also amounts to a rejection of any plan for subdividing a district completely into branch areas while the District Reserve Bank itself exercised no distinct banking functions except those of oversight. It is believed that this latter plan would not be desirable, but that in every district there should be a strong independent Reserve Bank organization performing actual banking functions and directly rediscounting the paper of a considerable number of the member banks included within such district.

In responding to criticism of the Organization Committee in fixing Federal Reserve districts and designating Federal Reserve cities, the Honorable Carter Glass, then Chairman of the House Committee on Banking and Currency, stated early in 1914:

With my knowledge of facts and study of the situation, covering a period of sixteen months, I would not, had I the power, make more than a single change in the districts as defined by the Organization Committee, and that change I do not care to point out, as no good could be expected from any suggestion that now might be made. Referring again to the relative importance of the branch banks and the regional Reserve Banks, in the practical operation of the system, no business center will lose its identity nor have its business relations seriously interrupted. The banking operations and the commercial transactions of any given territory will be practically maintained as they exist today, for the reason that such territory will transact its business with the branch bank, if more convenient than with the regional reserve bank, so that there is no earthly reason why any large financial or commercial community should be in the least degree uneasy over the prospect of losing any business which it now commands.

EARLY DISADVANTAGES

In the original Federal Reserve Act, the mobilization in the Federal Reserve

Banks of reserves of member banks extended over a period of thirty-six months. In carrying these provisions of the law—as long as they existed—into effect, it became apparent that the cities in which Federal Reserve Banks were located had an advantage over cities of former equal standing, especially in regard to accounts of country banks, and the advantage of correspondent banks in Federal Reserve cities was further accentuated when the early steps in the par collection of checks were taken. At first, banks in the other cities endeavored to offset the advantage by maintenance of excess reserves in the Federal Reserve Banks and agreement for immediate charging against such reserves of their checks by the Federal Reserve Banks. This proved both burdensome and unsatisfactory.

In its Second Annual Report to Congress, for the year 1915, the Federal Reserve Board states:

The question of branches of Federal Reserve Banks has received careful attention during the past year. There has been intimation from several quarters that the establishment of a branch at a given point would be acceptable to the banks of that place. Only in one instance—that of New Orleans—did the Board receive a definite request from a Federal Reserve Bank to establish a branch. Believing that New Orleans and the adjacent territory could make advantageous use of this additional banking machinery, the Board authorized the establishment of a branch of the Federal Reserve Bank of Atlanta to be located in New Orleans, and this branch was opened for business on September 10, 1915. Operations at the New Orleans branch have proceeded satisfactorily, and the institution has been of considerable use to the local banks. The branch is already more than self-supporting.

Investigation and experience have seemed to show that, at least for some years to come, the organization of branches with completely equipped offices, vaults, and

the like, and with a full staff of salaried officials, will be too heavy an expense for most of the reserve banks, yet, that valuable service could be performed by local offices of the several banks in not a few places. The Board has, therefore, had under consideration the question whether establishing local agencies might not meet the requirements of the case better than the more fully organized branch office. Competent legal opinion is to the effect that the creation of such local offices is permissible under the terms of the law, and the Board believes that it may prove practicable to meet banking necessities in many sections of the country by this means.

The entrance of the United States into the Great War in April, 1917, forced upon the Federal Reserve Banks greatly increased responsibilities and duties. By reason of the government's financial requirements and the assistance rendered to member banks to enable them to meet obligations and give the wonderful support accorded by the banks to the nation's demands, the Federal Reserve Banks were enabled to show substantial earnings, and, on account of the favorable position thus attained, the early establishment of branches was possible.

The section of the Act relating to branches was amended in June, 1917, and in its Fourth Annual Report, the Federal Reserve Board made the following statements:

As originally enacted, this section provided that each Federal Reserve Bank "shall establish branch banks" to be "operated by a board of directors under rules and regulations approved by the Federal Reserve Board," and provided also that there be seven directors having the same qualifications as directors of Federal Reserve Banks. The section as now amended provides that the Federal Reserve Board may permit or require any Federal Reserve Bank to establish branches within its district, and that such branches, subject to such rules and regulations as the Federal

Reserve Board may prescribe, shall be operated under the supervision of a board of directors to consist of not more than seven or less than three directors, of whom a majority of one shall be appointed by the Federal Reserve Bank of the district and the remaining directors by the Federal Reserve Board.

During the year branches have been established at Omaha by the Federal Reserve Bank of Kansas City, at Louisville, by the Federal Reserve Bank of St. Louis, and at Portland, Seattle and Spokane, by the Federal Reserve Bank of San Francisco, and are now in operation. The Board has, in addition, authorized the establishment of branches at Pittsburgh and Cincinnati by the Federal Reserve Bank of Cleveland, at Detroit, by the Federal Reserve Bank of Chicago, at Baltimore, by the Federal Reserve Bank of Richmond, and at Denver by the Federal Reserve Bank of Kansas City. It is expected that all of these branches will begin business at an early date.

The policy of the Board in the establishment of these new branches has been to recognize the unity and paramount responsibility of the Federal Reserve Bank, while extending full facilities to the banks in the territory served by the branch. By avoiding duplications in bookkeeping, and by a consolidated control of accounts at the Federal Reserve Bank, it is expected that branches can be operated at a comparatively small expense.

In the organization of the branches in the various Federal Reserve districts, the parent banks have retained definite portions of their districts in which they exercise distinct banking functions for member banks, and have delegated to the branches like functions for member banks in territories or areas assigned to such branches.

BRANCHES ARE SUBSIDIARY

There are now in operation twenty-four branches of the twelve Federal Reserve Banks. These branches have all been located in the several districts in harmony with the underlying direc-

tion of the Act that they shall exist "with due regard to the convenience and customary course of business." The actual operation of all the branches in the final results is subsidiary to the parent banks and forms part of their functions. The figures of the branches are embraced in the reports and statements of their parent. Matters of policy and questions of operation are determined by the head offices in the respective districts.

By reason of remoteness from the head office, some of the branches maintain separate books and perform practically all of the functions of the parent bank in relations with member banks in their assigned zones or territories. In others, a method prevails by which all figures and accounts are maintained in the head office through private telegraphic connections with the branches and under a satisfactory system of communication and accounting.

FUNCTIONS OF BRANCH BANKS

The powers and functions exercised by the branches of the Federal Reserve Banks embrace:

- (1) Receiving deposits of member banks and the government;
- (2) Paying out currency and coin to banks;
- (3) Receiving from member banks applications for loans and discounts and tenders of bills eligible for purchase by Federal Reserve Banks, and examining all paper presented for technical defects, generally passing immediate credit for proceeds subject to final review by the head office;
- (4) Operating city and country collection departments for handling of bonds, coupons, notes, trade acceptances, sight, time, and documentary drafts, insurance and railroad vouchers, and certificates of deposits;
- (5) Operating a transit department

for handling checks and bank drafts and other cash items payable on demand;

(6) Clearing of checks and drafts and other clearable items payable through clearing houses in cities wherein branches are located;

(7) Making wire transfers to and from other Federal Reserve and branch cities for member banks in branch territory;

(8) Converting, exchanging and interchanging all issues of Liberty Loan bonds, Victory Liberty Loan notes and certificates of indebtedness;

(9) Redemption of United States securities, coupons, War Savings Certificates and stamps.

In the establishment of branches of the Federal Reserve Banks, efforts were made to give to those communities wherein the branches are located the fullest measure of Reserve Bank service demanded by banking and business conditions within limits of reasonable expenditure and avoiding unnecessary duplication of work. In each branch there is maintained an adequate currency supply to meet the needs of the community. The sub-treasuries were discontinued, prior to July 1, 1921, under an amendment by Congress to the organic law, and the functions and duties of those offices have been undertaken also by the Federal Reserve Banks and branches.

BRANCHES AID COLLECTIONS

The branches have been notably effective in the collection operations as developed in the Federal Reserve System. Checks and drafts and other collection items upon banks in a given branch or parent bank territory are sent directly to the branch or bank serving that territory by all other Federal Reserve Banks and branches, and arrangements have been perfected permitting the larger member banks

in the centers to send direct to the proper Federal Reserve Bank or branch all such items payable in its respectively allotted areas.

It is apparent that, in every practicable way, the banks in cities and areas wherein branches of Federal Reserve Banks are located are accorded all the facilities and services of the System in like manner as those in designated Federal Reserve cities. Capital stock adjustments and dividend payments naturally appertain to the head offices, and these functions are necessarily reserved, but otherwise the branches render available in their cities and assigned areas all Federal Reserve banking powers.

A notable instance of the use to which these facilities have extended is that, in one of the leading branches during the calendar year, 1920, over \$510,000,000 in currency was deposited, and approximately \$490,000,000 paid out and about 14,000,000 checks, aggregating nearly \$9,000,000,000, were handled by this one branch.

BRANCH BANKS GROWING RAPIDLY

In many of the locations the facilities demanded and accorded have already assumed such magnitude and importance as to require the services of large clerical staffs occupying considerable office space, and in not a few instances, already, the branches have been compelled to acquire separate buildings or to plan independent quarters in order to secure proper safeguards and efficient handling of the volume of work passing through their hands. Some of the Federal Reserve Banks now have under consideration necessary office location of branches; some branches now already established are being placed in their own buildings, the property of the parent banks. It is manifest that considerable expendi-

ture by the Federal Reserve Banks for office buildings and vaults for branches is necessary in order to conduct the work properly.

It is not improbable that in the future development and progress of the Federal Reserve System, there will arise the necessity for the location of

other branches to meet the demands or requirements of business communities or industrial centers. These situations will be met and provided for and any additional functions which may be properly assumed by the Federal Reserve Banks will likewise be allotted to the branches.

Curves of Expansion and Contraction, 1919-1921

By A. C. MILLER

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THE economic vicissitudes through which the country has passed during the past year have brought to everyone a vivid and memorable experience of the actualities of expansion and contraction and have made the study of the conditions which eventuate in these violent alternations of the curves of business and credit, a matter of profound practical importance.

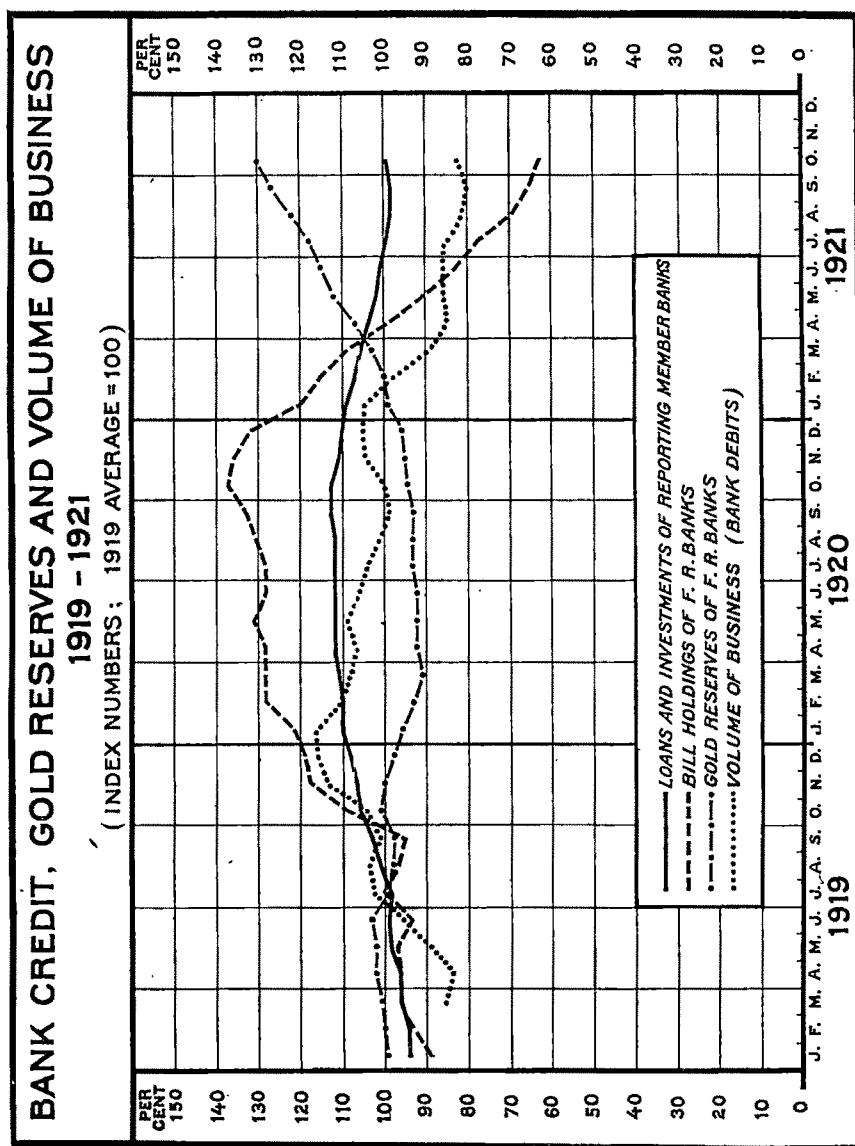
War, and its immediate aftermath of business inflations, made the credit expansion. After-war readjustment, with its inevitable liquidation, has made the credit contraction. So much is already clear from the outside point of view and is now admitted by most fair-minded people. But what is further revealed and how does the matter look when the operations of the banking system are viewed from the nearby, or Federal Reserve, point of view? For this whole recent experience raises some questions of great moment with regard to the functioning of the country's new credit mechanism.

It is not the purpose of this discussion to go into the economics of the expansion and contraction of 1919-1921. It is not at all concerned with questions of economic causation. No attempt will be made to determine whether expansion or contraction of

credit caused expansion or contraction of business and the rise and fall of prices, or whether the movement of credit was determined by the movements of business and prices. The correlation of the business and financial factors involved in the economic developments of the past three years presents too complex a problem to be undertaken within the limits of this paper. For the assistance of any who are ambitious to penetrate the economic mysteries of recent expansion and contraction, there is, nevertheless, appended to this article a collection of data covering most of the determinable factors involved in the problem. In order to make the fluctuations in the different items comparable, they are expressed in the form of index numbers based on the 1919 average. A second table shows the absolute figures upon which the index numbers of banking are based.

MEASUREMENT OF EXPANSION AND CONTRACTION

The object of the present discussion is to ascertain what light recent experience throws on the question as to whether the Reserve System possesses a sensitive and accurate indicator of changes in the credit and business



situation—or, let us say, of expansion and contraction.

The above chart brings out the essential developments for this purpose. The two curves of credit on the chart show, respectively, changes in the bill holdings of the Federal Reserve Banks and changes in the loans and investments of the reporting member

banks.¹ The third curve shows changes in the gold holdings of the Federal Reserve Banks, and the fourth,

¹ Consisting of some 800 of the largest banks of the country which report weekly to the Federal Reserve Board. These banks represent about 40 per cent of the banking resources of the country, and changes in their condition may be taken as typical of changes in the banking situation in general

changes in the volume of the country's business.²

The volume of business in general depends on four factors, or, in mathematical language, is a function of four variables: (1) physical volume of production; (2) price level; (3) activity of trade (rapidity of turnover), and (4) speculative and other transactions in securities, exchange, etc. A change in any one of these factors affects the total volume of business, and this, in turn, affects the total volume of credit required. In any exhaustive analysis of the business or economic situation to ascertain what factors are affecting the demand for credit facilities, or, let us say, the expansion or contraction of credit, careful attention must always, of course, be given to variations in any of the elements affecting the volume of business.

CHANGES IN THE BUSINESS SITUATION, 1919-1920

Beginning about midyear, 1919, and extending to the end of the year, there was a pronounced expansion of business accompanied by great speculative activity involving commodities as well as securities. Increased activity of business (rapidity of turnover) and rise of prices were the important factors in this development. The index of the physical volume of production (for manufactures) shows no noteworthy change during this interval.

Economic reaction set in early in 1920, and continued throughout the

year. Business recession was much in evidence and gained in momentum after mid-summer, 1920. In the first quarter of 1921 the reaction reached the stage of acute liquidation. Thereafter business pursued a steadier course. This period of reaction and liquidation was marked by diminished physical volume of production (for manufactures) after mid-summer, 1920, and by the drop of wholesale prices. The index for manufactures declined from 102.3 in July to 77.9 in December, 1920, and to 68.5 in July, 1921. The price index declined from 123.6 in July to 89.2 in December, 1920, and 69.8 in July, 1921. These changes in the business situation, 1919-1921—that is, the rise and the fall in the volume of business transactions—are clearly reflected in the curve of business. Its trends are unmistakable.

How well are these changes in the business situation—in brief, the expansion and contraction of the volume of business—reflected in the curves of credit, first, that of the member banks, and second, that of the Federal Reserve Banks?

MEMBER BANK CREDIT CURVE OF EXPANSION AND CONTRACTION

The member bank credit curve reflects pretty faithfully the business expansion which went on in the second half of the year 1919, and again, the liquidation which was in process in the early part of the year 1921. It will be noticed that the liquidation of the loan account of the reporting member banks in the first six months of the year 1921 approximately cancels the expansion of the loan account of these banks in the second six months of the year 1919. Through the year 1920, however, it will be noticed that the curve of credit of the member banks shows a different trend from the curve of business. The business recession which was in process

² As measured by debits to individual accounts in banks in about 150 leading clearing-house centers. In order to eliminate short-time fluctuations due to the difference in the number of business days in a month, to mid-month and end of the month payments, and to Treasury operations in connection with the quarterly installment of income taxes, the volume of business curve on the chart has been smoothed by means of a moving average which shows for each month the average volume of business for the month and the two preceding months.

in 1920 is not at all reflected in the member bank curve of credit. There was no contraction of credit until the last quarter of the year. On the contrary, the banks were expanding their accommodation throughout the year and until after the crop-moving season was over. Agriculture was in distress, while business was in the midst of the crisis of readjustment and needed assistance in effecting the transition from the period of expansion through the period of liquidation. That assistance was being extended by the banks, as both of the curves of credit clearly indicate, and thus was liquidation of business moderated and kept orderly by comparison with what it would have been, had it not been for the steadying and easing influence of our new credit machinery.

THE RESERVE BANK CURVE OF CREDIT

Turning to the Reserve Bank curve of credit, it appears that the curve of credit of the Federal Reserve Banks parallels the curve of business more closely than does the curve of credit of the member banks, both in the period of rapid expansion in 1919 and in the period of acute liquidation in 1921. It will be noticed on the chart that the Reserve Bank curve of credit in the period under review twice cuts through the member bank curve of credit—once in October, 1919, on the upward swing of business, and again in April, 1921, on the downward swing of business. By comparison with the member bank curve, the ascent of the Reserve Bank curve was more pronounced on the rise, as was also its descent on the fall. On the other hand, throughout nearly the whole of 1920, when the business curve was showing a decided downward trend (until the last quarter, when a slight rise is shown due to seasonal influences) the Reserve Bank curve of credit showed an opposite, or

upward, trend. Both curves of credit in the critical year 1920, therefore, followed a different trend from the curve of business, but it is noteworthy that the difference is much more pronounced in the Reserve Banks' curve than in the member banks' curve.

THE GOLD INFLUX AND RESERVE BANK CREDIT CURVE

There still remains to be considered the curve of gold reserves. The sharp and prolonged drop in the Reserve Bank curve of credit through the year 1921 and the liquidation which it reflects cannot be understood without reference to the great influx of gold into the country and into the Federal Reserve Banks, which has been in process during the past twelve months. Reference to the chart brings out the opposite movements in these two significant and related curves. Reference to the index numbers shows that the index of the Federal Reserve System's gold holdings rose from 94 in October, 1920, to 130 in October, 1921, while the index of bill holdings declined from 137 in October, 1920, to 63 in October, 1921. Over 45 per cent of the liquidation of the loan account of the Federal Reserve System, it appears, may be attributed to the increase of its gold holdings. The influence to be attributed to the gold factor in Federal Reserve Bank liquidation is still greater in the case of the Federal Reserve Bank of New York, which has been the chief recipient of the gold flowing from Europe to our shores. The index of bill holdings for that bank fell from 126 in October, 1920, to 37 in October, 1921. Its gold index for the same period shows a rise from 74 to 156. The gold factor is thus seen to account for over 73 per cent of the liquidation experienced by the loan account of the Federal Reserve Bank of New York.

The great stream of gold which has

poured into the United States from Europe during the past year has come in liquidation of foreign indebtedness to us, and has been turned over by member banks to the Federal Reserve Banks in liquidation of their own indebtedness. The pronounced and continuous downward trend of the Reserve Bank loan curve during the past year is therefore seen to be due largely to foreign liquidation. The course of business shows considerable steadiness after the first quarter of 1921, and the member bank curve of credit, after the second quarter; but the Reserve Bank curve of credit continues its downward course in 1921 without abatement in quick and close response to the continuously upward course of the curve of gold reserves. As an indicator of the degree and rapidity of domestic liquidation, the Reserve Bank curve of credit is misleading, owing to the disturbing influence of the gold factor.

THE RESERVE BANK CURVE OF CREDIT THE MORE SENSITIVE INDICATOR OF CREDIT CHANGE

Comparing the two curves of credit with one another, it is clear that while both curves are influenced by the same changes in the business situation, their response is not the same. A glance at the chart brings out the fact that the Reserve Bank curve moves very much more readily and markedly than the member bank curve. The member bank curve appears flat by comparison with the Reserve Bank curve, and gives a less lively impression of the business and credit developments and changes which were in process. What is the explanation of the difference and which of the two curves is the better index of expansion and contraction?

The relative flatness of the member bank credit curve during the year 1920 as compared with the Reserve Bank curve is due to several circumstances,

some transitory in character. It will be recalled that the loan and investment account of the banks of the country was greatly swollen during the War by heavy investments in Liberty bonds and Certificates of Indebtedness, and by accommodation granted subscribers to government war loan issues. After the War, the process was reversed. There has been constant liquidation of bank holdings of government securities and of loans collateralized by such securities. Reporting member banks' holdings of government securities dropped from 3,083 millions in May, 1919, to 1,938 millions in January, 1920, and 1,318 millions in January, 1921. Figures of holdings of paper secured by government securities are not available until December, 1919, when they amounted to 1,337 millions. From this point they declined to 899 millions in December, 1920, and 577 millions in October, 1921. The liquidation in the loan and investment account of the member banks from these sources has therefore been very considerable. But it does not appear to be reflected in the movement of the member bank curve of credit in 1920. That curve was ascending in spite of liquidation from these sources. But had it not been for this liquidation, it is altogether reasonable to assume that it would have ascended still more. The credit thus released by liquidation of war loan securities and paper was apparently being used to expand the commercial and speculative loan accounts of the banks.³

³ Something similar occurred in the early autumn of 1919, when it will be noticed the member bank curve was rising, while the Reserve curve was declining, the banking expansion then in process being able to proceed without increased borrowings from Federal Reserve Banks. This is explained by the fact that the floating debt of the government was reduced at this time by almost 500 millions of dollars, the banks using the funds thus made available to them for the expansion of their commercial loans.

When we come to the period of liquidation in the autumn of 1920 and the following winter, there appeared an influence of an opposite character to that just described—namely, the so-called “frozen credit.” By “frozen credit” is meant credit that has continued its existence beyond the time when the transactions which gave rise to the credit should normally have liquidated themselves. It is made up of credits which have not been liquidated because the transactions underlying the credits have not been able to run their course and liquidate themselves. It is well known that large volumes of goods produced last year have been carried by the producers for lack of satisfactory markets. Prices were falling, markets were collapsing, and there was congestion of goods at points of primary production and distribution. The owners of these goods had to be “carried.” There is no means of approximating the amount of these frozen credits, but there is reason to believe that they constitute a very substantial fraction of the total loans and discounts carried by the commercial banks of the country.

The member bank loan curve shows resistance to the forces of liquidation. It was this retarded or “orderly” liquidation which kept the curve from descending as swiftly as it otherwise would have if it had been influenced merely by the volume of current business transactions. Moreover, the liquidating power of a dollar paid in by a member bank to its Reserve Bank in a period of liquidation appears, on the basis of the past two years, to be very much less than the credit-supporting power of a dollar loaned by a Federal Reserve Bank to a member bank in a period of active expansion.⁴ And fur-

thermore, the Federal Reserve Bank loan curve, as has already been pointed out, represents in a peculiar degree the liquidating effect on the Federal Reserve loan account of the huge influx of gold which has been continuous during the past twelve months. Besides these transitory influences which have helped to give the member bank loan curve a relatively flat character, there is the additional important and regular influence exercised by the far greater volume of member bank loans compared with Reserve Bank loans. Owing to the fact that the base figure is much larger for member banks than for Reserve Banks, the same change in absolute amounts will result in a much larger percentage change and, consequently, in a much steeper movement in a Reserve Bank curve than in a member bank curve. But this arithmetical fact does not fully explain the discrepancy. There is a further reason of an economic character to be noted in a study of the curves of expansion and contraction.

The great bulk of the loans of the member banks at any time represents loans incident to the ordinary volume and requirements of business, and

29, 1921) the increase in the loans of the member banks was 6.7 times as great as the increase in the discounts of the Federal Reserve Banks, while during the following year the decrease in the loans was only 2.3 times as large as the decrease in Federal Reserve Bank discounts. For the reporting member banks, for which data on more significant dates are available (July 25, 1919, before the speculative expansion began, October 15, 1920, when the peak was reached, and November 2, 1921, the latest date for which data are available) their investment and loan account increased 3.2 times as fast during the period of expansion as their borrowings from the Federal Reserve Banks, while during the period of liquidation the reduction in the investment and loan account of the reporting member banks is 1.6 times as large as the corresponding reduction in their borrowings from Federal Reserve Banks.

⁴ During the period of expansion between 1919 and 1920 (dates for which information is available being June 27, 1919, June 25, 1920, and June

exercises, even in times of marked changes in the business situation, a steadying influence on the member bank credit curve. The situation of the Reserve Banks is different. Their loan account does not reflect the normal volume of credit in use. Under normal conditions, their operations are not large. It is not the absolute amount of credit in use, but the ebb and flow of credit, which affects the loan account of the Federal Reserve Bank. The Federal Reserve Bank has little part in the ordinary credit business of the country. It does not deal with business borrowers directly. The relations of the business man are with his member bank, the member bank in turn dealing with the Reserve Bank as occasion may necessitate. The Federal Reserve loan is not the first line of credit, but the second line of credit. The expansion and contraction of the Reserve Bank loan account are twice removed from the expansion and contraction of the volume of business as reflected in commercial bank loans.

The Federal Reserve is called into activity when the supply of ordinary credit facilities is inadequate. It supplements the resources of its members. It is, so to speak, the increments and decrements in the country's credit requirements that are reflected in the upward and downward movement of the Federal Reserve loan account. It is when business is speeding up beyond their normal credit capacity that the commercial banks must resort to the Federal Reserve Banks for accommodation. When business is receding and liquidating in a period of economic reaction, slackening of credit require-

ments will result in a marked reduction of borrowings from Federal Reserve Banks. The Reserve Bank curve consequently reflects movement, change—the *more or less* of credit required—and not the actual total volume of credit in use by business. On a relative basis the Reserve Bank curve has a tendency to magnify what is in process in times either of rapid expansion or of acute liquidation; in other words, to give an exaggerated or heightened impression of these movements.

A GUIDE TO CREDIT POLICY

Therein consists its importance as an administrative guide. While it may be faulty as a gauge of the degree of credit expansion or contraction, its very sensitiveness gives it a peculiar value as a quick indicator of what changes in the business and credit situation are in process or even impending. For while the Reserve Bank curve, during the period under review, has been over sensitive and gives an exaggerated impression of credit developments, the member bank curve, for reasons already discussed and primarily because, at any moment, it is more influenced by what has taken place than by what is taking place, tends to give an inadequate impression of changes which are in process, at least so far as they affect the credit situation. In times of rapid expansion or contraction, it is not the total volume of outstanding bank loans which is significant, but additions to that volume, or reductions in it. From this point of view, the Reserve Bank curve is a truer index of business and credit development than the member bank curve, and a better guide to credit policy.

INDEX NUMBERS OF BANKING AND BUSINESS DEVELOPMENTS: 1919-1921

(Monthly averages for 1919 = 100)

	ALL FEDERAL RESERVE BANKS			F. R. BANK OF NEW YORK			REPORTING MEMBER BANKS			Volume of business ^b	Wholesale price index ^c	Volume of manufacture ^d
	Bill holdings	Gold reserves	F. R. note circulation	Bill holdings	Gold reserves	F. R. note circulation	Loans and investments ^a	Net demand deposits	Accumulation at F. R. Banks			
1919												
January..	89	99	97	94	95	92	94	95	88	....	95.8	101.6
February..	93	100	95	100	92	90	94	94	94	....	92.9	86.7
March...	96	101	96	97	105	96	96	95	98	85.6	94.8	92.6
April....	96	102	98	93	115	100	96	96	97	83.3	95.8	93.7
May....	97	102	97	98	112	101	98	99	101	88.7	97.6	95.7
June....	93	103	96	89	119	100	99	98	92	95.1	97.6	95.9
July.....	100	99	97	106	98	102	98	100	98	102.5	103.3	101.9
August..	97	98	98	98	94	102	101	102	94	103.4	106.6	107.2
September	95	98	101	89	94	102	103	104	93	101.2	103.8	103.8
October..	109	101	105	109	91	103	106	105	112	104.6	105.2	104.4
November	118	100	108	114	94	104	107	107	119	113.5	108.5	102.2
December	119	98	113	114	91	108	108	106	117	116.4	112.3	102.1
1920												
January..	122	96	111	119	87	105	110	109	121	116.7	117.0	115.9
February..	128	93	114	126	83	110	110	108	136	111.0	117.5	104.6
March...	128	91	117	123	77	113	111	109	138	108.4	119.3	118.0
April....	128	92	118	117	86	114	112	109	139	107.1	125.0	108.8
May....	131	92	119	122	86	115	112	109	140	108.6	128.3	111.8
June.....	128	92	119	120	84	116	112	109	133	106.9	126.9	109.6
July.....	128	93	121	122	81	117	112	108	135	103.6	123.6	102.3
August..	131	93	122	125	75	116	112	107	139	101.2	117.9	104.9
September	133	93	126	118	76	117	113	107	142	98.4	114.2	101.4
October..	137	94	128	126	74	119	113	106	150	100.3	106.1	101.2
November	136	95	128	125	74	119	111	104	148	104.3	97.6	88.9
December	132	96	128	124	71	118	110	102	143	104.6	89.2	77.9
1921												
January..	120	99	121	116	65	109	109	102	131	104.7	83.5	78.3
February..	115	100	117	114	64	108	107	100	126	98.2	78.8	75.0
March...	109	103	115	102	78	108	106	98	121	90.1	76.4	80.6
April....	100	107	110	84	101	104	104	96	108	85.0	72.6	75.8
May....	91	112	107	75	106	98	102	96	96	85.9	71.2	79.3
June....	83	115	103	59	128	94	101	96	85	85.9	69.8	75.9
July.....	78	118	100	53	132	89	99	95	79	85.2	69.8	68.5
August..	70	122	96	49	134	87	98	94	67	81.6	71.7	....
September	66	127	95	39	150	87	98	94	61	80.2	71.7	....
October..	63	130	94	37	156	86	99	95	57	82.3	....	....

^a Including rediscounts with Federal Reserve banks.^b As measured by debits to individual accounts, three-months' moving averages.^c U. S. Bureau of Labor Statistics.^d Harvard Committee on Economic Research.

BANKING DATA: 1919-1921

(Monthly averages: amounts in millions of dollars)

	ALL FEDERAL RESERVE BANKS			F. R. BANK OF NEW YORK			REPORTING MEMBER BANKS			Ratio of F. R. accommo- dation to to- tal loans and investments (per cent)
	Bill holdings	Gold reserves	F. R. note circulation	Bill holdings	Gold reserves	F. R. note circulation	Loans and investments*	Net demand deposits	Accommoda- tion at F. R. Banks	
1919										
January	1,992	2,100	2,534	757	611	676	14,178	10,048	1,306	9
February	2,084	2,119	2,465	804	593	665	14,257	9,908	1,400	10
March	2,147	2,138	2,506	780	677	709	14,578	10,115	1,449	10
April	2,138	2,156	2,547	751	740	738	14,559	10,135	1,443	10
May	2,168	2,177	2,532	795	721	743	14,886	10,439	1,497	10
June	2,089	2,177	2,500	721	765	736	14,969	10,393	1,361	9
July	2,241	2,112	2,527	852	632	749	14,813	10,604	1,454	10
August	2,174	2,079	2,543	789	602	748	15,204	10,800	1,395	9
September	2,136	2,086	2,627	718	605	753	15,577	10,984	1,383	9
October	2,436	2,136	2,742	883	587	756	15,961	11,140	1,660	10
November	2,633	2,116	2,821	923	607	761	16,143	11,330	1,765	11
December	2,661	2,089	2,959	921	587	796	16,337	11,244	1,739	11
1920										
January	2,720	2,037	2,832	963	557	775	16,670	11,576	1,803	11
February	2,867	1,979	2,932	1,018	535	810	16,630	11,482	2,019	12
March	2,856	1,936	3,041	997	498	834	16,813	11,600	2,053	12
April	2,853	1,950	3,075	949	552	838	16,935	11,546	2,069	12
May	2,934	1,943	3,092	981	555	848	16,941	11,506	2,085	12
June	2,857	1,964	3,175	968	538	857	16,926	11,499	1,981	12
July	2,875	1,975	3,175	985	518	860	16,876	11,466	2,005	12
August	2,933	1,974	3,172	1,006	483	854	16,862	11,299	2,072	12
September	2,973	1,975	3,277	956	490	862	17,012	11,286	2,117	12
October	3,071	1,998	3,338	1,014	477	872	17,147	11,266	2,222	13
November	3,033	2,011	3,329	1,013	474	876	16,827	11,027	2,200	13
December	2,952	2,043	3,374	1,005	459	871	16,692	10,823	2,132	13
1921										
January	2,692	2,092	3,179	938	415	805	16,402	10,816	1,947	12
February	2,570	2,127	3,054	922	413	793	16,131	10,583	1,878	12
March	2,444	2,192	2,956	826	500	791	16,021	10,404	1,792	11
April	2,241	2,233	2,871	676	650	764	15,733	10,201	1,601	10
May	2,039	2,370	2,754	608	682	723	15,466	10,194	1,421	9
June	1,865	2,439	2,682	479	822	690	15,319	10,182	1,267	8
July	1,735	2,503	2,594	432	846	657	15,020	10,037	1,167	8
August	1,566	2,598	2,506	396	862	638	14,876	9,921	996	7
September	1,471	2,694	2,485	315	966	638	14,857	9,953	906	6
October	1,415	2,755	2,452	298	1,001	634	14,897	10,107	854	6

* Including rediscounts with Federal Reserve banks.

Expansion and Contraction Under the Federal Reserve System

By ERNEST MINOR PATTERSON

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MUCH confusion of thought on the subject of expansion and contraction is due to our failure to distinguish clearly between three different problems. An economic system, which operates on a money and credit basis, and which maintains business relations with the systems of other countries, cannot well escape these difficulties. Each of the three facts involved is at times referred to as "depreciation."

THE THREE KINDS OF "DEPRECIATION"

One of them is the relation of a given financial system, such as that of the United States, to that of other countries as reflected in foreign exchange quotations. The British pound is worth at mint par \$4.8665, the German mark, 23.8 cents, the French franc, 19.3 cents and so on. When, as at present, these moneys are bought and sold in our markets at about \$3.80, one-third of a cent and 7.25 cents, respectively, it is customary to say that the moneys of those countries are depreciated. During the late War the moneys of the belligerent countries were thus depreciated in the United States, while at the same time our money was depreciated in certain neutral countries.

The causes of such a condition we need not here explain, but one point needs emphasis. In every case where such depreciation occurs there is merely an increase in the value of the first money in terms of the second and a decrease in the value of the second in terms of the first. In terms of the American dollar the pound sterling is now lower than usual, and

in terms of the pound sterling our dollar is higher than usual. For a period of time several years ago the American dollar was lower than usual in terms of the money of Sweden, and Sweden's money was higher than usual in terms of our dollar. Foreign exchange quotations are for the most part merely a barometer or index, an effect and not a cause, but what they state is a change in the relative position of the moneys of two countries. The appreciation of one involves the depreciation of the other, and vice versa.

A second kind of depreciation is found when one form of money, say the standard money gold, changes in its relationship to some other form of money in the same country. Such a change occurred in the United States during the Civil War, when the "greenbacks" or United States notes were issued in very large quantities and were acceptable at less than their face value in exchange for gold. At one time a dollar of gold would purchase as much as \$1.85 in greenbacks. The greenbacks had depreciated in terms of gold, and gold had appreciated in terms of greenbacks. Again it is a question of the relationship between the two.

A third type of depreciation is to be observed when the general price level changes. If prices in general rise to a higher level than that of the past it may be said that the value of commodities in the country has appreciated in terms of money and that the value of the money has depreciated in terms of the commodities. Similarly, if the general price level falls, there is an appreciation of the value

of the money in terms of commodities and a depreciation of the value of the commodities in terms of money.

These three forms of depreciation are well understood by most persons who are at all acquainted with financial questions. Nevertheless, they are closely interrelated, and when a particular problem is up for consideration these interrelationships may be overlooked and confusion of thought result.

"EXPANSION" AND "INFLATION"

One other definition is necessary. "Expansion" is a word that is used very loosely. Sometimes, though not always, it is employed as a synonym for "inflation." With these two words, or rather in contrast to them, are "contraction" and "deflation."

Any and every increase in the volume of circulating medium in the United States is not inflation. As population grows and as business activity increases a larger amount of circulating medium is needed if the price level is not to decline. If its amount should remain the same the price level would fall and we would suffer all of the accompanying hardships. As the volume of trade increases it is better to have an increase in the volume of circulating medium. If this occurs and at the same rate as the growth in trade there are no harmful effects, and it would not be correct to say there had been inflation. A mere increase in the volume of money or credit is not inflation, for the increase must be viewed in its relation to the demand for it. Similarly, a decrease is not to be referred to as deflation if it merely corresponds to a decline in the volume of business, *i.e.*, to a reduction in demand. The price level is not affected and no hardship results.

Changes in the volume of money and

credit that only adjust their supply to the demand for them are better referred to as a contraction and an expansion that merely evidence the elasticity of a monetary and banking system. For years the Canadian bank note issues have increased in the fall of each year to meet the demand for crop-moving, and have later contracted when that demand ceased. Such changes ought not to be referred to as inflation and deflation, but as a most desirable expansion and contraction.

It is true that expansion of this kind might become dangerous, but it is not probable. The volume of note issues or of deposit liabilities in relation to reserves might become too large as compared with the reserve held for redemption purposes. Public knowledge of this situation might result in a run on the banks and the failure of some of them, even though the expansion had occurred merely to meet the needs of a rapidly growing trade. However, this kind of expansion is not apt to take place. There are both seasonal and cyclical fluctuations in the demand for money and credit, but in actual experience they are not likely to result in a condition of the sort just described. While an expansion does take place, ordinary trade demands are not apt to lower seriously the percentage of reserves held.

There are two periods of activity for analysis in this article. One extends from the formation of the Federal Reserve System in the autumn of 1914 to the spring of 1920. The second continues from that time to the present.

That in the first of these two periods there occurred an increase in the volume of circulating medium does not need to be argued here. Nor need we stop to demonstrate in detail that this increase was more rapid than the

growth in the volume of trade. Professor Kemmerer, in his volume *High Prices and Deflation*,¹ has shown that from 1913 to 1918 there was an increase of 13 per cent in the country's physical volume of business, while in 1919 it actually declined from the 1918 level being only 9.6 per cent greater than in 1913.

During this same period of time there was an increase in wholesale prices as reflected in the United States Bureau of Labor index number of 112 per cent over the 1913 level. Also, the exchange market showed a depreciation of the pound sterling, the mark, the franc, the lira and other foreign currencies in terms of our dollar. We have already pointed out that there are three kinds of depreciation, and the period in question may be examined with a view to determining whether the Federal Reserve System and its management were responsible for such depreciation as occurred.

First, let us notice the increase in the volume of the circulating medium. From November 1, 1913, to November 1, 1918, the amount of money in the United States increased from \$3,755,994,000 to \$7,590,173,000. Of this increase \$1,173,883,000 was in gold (and gold certificates), and \$2,660,296,000 in other forms of money. The increase in our stock of gold had a definite connection with affairs abroad, and will be considered a little later. But there was an increase in the issue of Federal Reserve notes, from nothing to \$2,705,737,000, and in the Federal Reserve Bank notes from nothing to \$71,647,260. Also during approximately the same period the deposit liabilities of the national banks increased from \$6,051,689,000 to \$11,013,330,000. There was without doubt an expansion in our circulating medium more rapid than in the demand for it.

¹ See pages 3-13.

What was the occasion for this and where does responsibility rest?

INCREASED DEPOSIT LIABILITIES

There were three leading reasons. One is found in the very nature of the Federal Reserve System. Our national banking organization as it existed prior to 1914 was said to lack elasticity. Expansion to meet any seasonal or cyclical growth in trade needs was difficult to secure, as was also contraction when the need had passed. Explanation of this difficulty need not be presented here, as the reasons for it are fully understood by most students of the subject, and have been set forth many times.

Under the old law, country banks were required to maintain a reserve of 15 per cent of their deposit liabilities, of which two-fifths, or 6 per cent, had to be in actual cash in their own vaults; reserve city banks, 25 per cent, of which one-half had to be in cash; and central reserve city banks, 25 per cent in cash. The net effect was that there could be on the average about \$8 of deposit liabilities on each \$1 of reserves held by the national banks of the country, or an average cash reserve of 12½ per cent. This varied slightly from time to time, and there have been slight differences in the estimates of students of the question, but the figures are sufficiently accurate for our present purpose.

Under the Federal Reserve Act, particularly as amended, all this was changed. By a concentration of cash in the vaults of the twelve Reserve Banks each dollar could be utilized much more effectively. Accompanying this there was a reduction in the reserve requirements of the member banks, and the net result was that \$1 of reserve furnished the basis for perhaps \$11.50 of deposit liabilities, or an

average cash reserve of about 9 per cent.² Although there may be differences of opinion as to this particular figure, there can be no dispute over the fact of a very pronounced change in the direction indicated.

Whether a change of this kind, which permitted and even encouraged an expansion in deposit liabilities, was wise cannot here be argued, but will be assumed. The United States had been paying too dear a price for its banking system. Greater elasticity was important. It could not be secured, except by a centralization of reserves, and centralization of reserves means that each dollar is more effective than before. Under such circumstances an average cash reserve for the country of more than say 10 per cent or 11 per cent would be very difficult and probably impossible to maintain. Such a change as this would have resulted under any plan of banking reform and under any management. Our circulating medium would have expanded more rapidly than the growth in trade demand and, *ceteris paribus*, would have caused a rise in the general price level.

INCREASED GOLD RESERVE

This assumes no alteration in the volume of the gold reserve. A reduction in gold supply would have offset this tendency to expansion, while any increase would enhance it. On this point we need merely refer to the facts, which are that from August 1, 1914, to January 1, 1919, there was an importation (net) of gold into the United States amounting to \$1,071,669,000, which made possible (according to the above ratio of 1½ to 1) an

addition of about \$12,324,193,000 to the deposit liabilities of our banks.

It thus appears that a plan of banking reform was deliberately adopted by the country, after a discussion extending over a number of years, which was one that was sure to increase the deposit liabilities of our banks. Moreover, any other reform, such as the so-called Aldrich Plan, would have had a similar effect.

But can the Federal Reserve System or its management be held responsible for the importation of gold that furnished an additional basis for this expansion? There is certainly no reason for such a view. The intense demand for our commodities and the rapid growth in our export balance threw on the European belligerents the burden of righting in some manner their unfavorable position. Commodities and securities, particularly the latter, were hurried over to us, and especially in the earlier part of the struggle large amounts of gold were sent also. The movement was a part of the general situation, and would have occurred had we still been operating under the old National Bank Law.

In fact, the existence of the Federal Reserve organization facilitated rather than impeded credit transactions, and thus made it easier to check the gold movement. If the older system had still been in operation much more gold might conceivably have been imported into the United States during that period.

STRAIN OF FINANCING WAR PURCHASES

But the analysis is not complete. Admitting that the new reserve requirements and the importation of gold encouraged a considerable expansion, it may be argued that the expansion that really occurred was extreme, going so far that the percentage of

² "Mechanism of Expansion Under the Federal Reserve System"; *Monthly Review of Credit and Business Conditions in the Second Federal Reserve District*, September 1, 1921, p. 12.

reserve actually held by the system was for a long time very close to the legal limit. With the New York Reserve Bank this was particularly noticeable. While the situation was a very strained one for the System as a whole, the condition of the New York Bank was at times especially weak, and was even disguised, though rather poorly, by a change in the form of its weekly reports. Had this been presented in the same form as used by the other eleven banks and by the System as a whole, there would have been shown a smaller percentage of reserve than that prescribed by the law. The form of report adopted by the New York Bank may have been as good or even superior to the other form, but the difference referred to illustrates the strain on that bank. At one time, too, the situation was materially helped by the timely deposit by the Federal government of a considerable amount of silver with the New York Bank. Also, the twelve banks of the System gave each other extensive relief by rediscounting heavily for each other, a form of assistance that was of general aid, but was particularly valuable to the New York Bank after November, 1919.

There was clearly a considerable amount of strain on the System. As has just been pointed out, the altered reserve requirements would have made possible a very considerable expansion in deposits, and heavy importations of gold increased this tendency, but neither of these facts explains the strain just referred to.

In the period from 1914 to April, 1917, there was a very heavy demand upon American banks to assist in war financing. The United States was not yet in the conflict, but the vast movements of goods, chiefly to allied countries, called for a large amount of financing, and American banks, in-

cluding the Federal Reserve Banks, assumed the burden.

The Federal Reserve System was designed primarily to aid commercial banking, that is, to assist in those banking transactions that facilitate the movement of goods from producer to consumer. To this general statement a few qualifications should be added by way of reference to such provisions as those regarding savings deposits and trust powers, but in general the statement is correct. When war supplies moved from the United States to Europe our banks gave their assistance. The volume was large but expansion was possible under the Federal Reserve System and with the increased gold supplies prevented any serious strain on the System prior to our entrance into the War and for a considerable time thereafter. Our participation in the conflict and the consequent demand for war financing by our own government definitely altered the situation.

EFFECT OF TREASURY POLICIES

Just what policies should have been followed by the Treasury Department in meeting the war emergency is something on which we probably cannot agree. The facts, however, are clear. The problem was one of securing maximum production and of diverting to war uses a very large fraction of that total product. Two main devices were employed to divert output to the government—taxation and bond issues (including certificates of indebtedness). Both of these were intended to secure the desired funds by encouraging saving. Taxation took funds from a taxpayer, usually much against his will, while he was expected to buy bonds voluntarily.

But the war needs amounted to some \$18,000,000,000 per annum, and at one period payments were as high

as \$2,000,000,000 per month, or at the rate of \$24,000,000,000 per year. Prior to the War our annual savings are estimated to have been at the rate of no more than \$6,000,000,000 or \$7,000,000,000 per year. To treble or more than treble the amount available was probably too great a task for taxation and bond issues combined. At any rate, policies were adopted that resulted in an inflation of the currency and hence forced loans from the general public.

RESERVE BANK FACILITIES FOR WAR FINANCING

If one is to appreciate the position of the Federal Reserve Banks in war financing, several facts must be kept in mind. One is the altered reserve requirements of member banks already referred to. Some of the reductions were made after we entered the War, particularly by the provision that the reserves specified were to be kept, not in the member bank's own vault, but as a deposit account with the Reserve Bank of its district. Along with this must be remembered the other amendment to the law that allowed gold in the hands of the Federal Reserve agent held by him against issues of Federal Reserve notes to be counted as part of the required reserve of his Federal Reserve Bank. Also, there must be mentioned the policy early adopted by the Reserve System of concentrating the gold and gold certificates of the country in the vaults of the Reserve Banks, Federal Reserve notes being issued in their place.

There were two other important provisions of the law. One of them states that the Reserve Banks are to be fiscal agents of the government. This places them in a position in which they are compelled to cooperate in methods of financing decided upon by the Treasury Department.

The other provision is one that appears to the casual reader as of slight significance, but it furnished the basis for many of the important operations of war financing. In Section 13 of the Federal Reserve Act the powers of the Reserve Banks are enumerated. Among the prohibitions there set forth is one against loans on "notes, drafts or bills covering merely investments, or issued or drawn for the purpose of carrying or trading in stocks, bonds, or other investment securities, *except bonds and notes of the Government of the United States.*"

The exception in the last words of this quotation was not particularly significant at the time of the passage of the Act—in fact it was rather commonplace. Yet it became very important during the War. The Reserve Banks could and did lend on government bonds and notes as security.

To the large amount of latitude thus allowed additions were made from time to time through rulings made by the Federal Reserve Board. Thus it does not seem entirely clear to the layman whether the law permits a Reserve Bank to discount the direct obligation of a member bank. The writer was of the opinion that it did not, and that only the rediscounting of customers' paper was acceptable. That he was wrong is shown by the fact that this direct discounting was permitted on a very large scale. Member banks discounted their own notes accompanied by Liberty Bonds as collateral security.

Closely associated with this policy were the decisions that notes of this sort might run for as short a time as fifteen days, that they might be renewed somewhat freely as they matured, and that there should be charged for such loans a discount rate no higher than the interest rate paid by the government on the bond offered as collateral.

The provisions of the law as cited opened the way, and the decisions just mentioned let down the bars completely. What followed may be visualized if one's imagination permits him to assume two printing presses in the Treasury Department. On one of them were printed government bonds for sale to the public through the Reserve Banks, which were the fiscal agents of the government. The Reserve Banks delivered the bonds to member banks for actual sale. A customer who was besought to buy a bond protested that he had not the funds, but was informed that he need pay only a small amount at a time, his bank agreeing to advance a loan, retaining the bond as collateral security and charging only the same rate of interest as paid by the government on the bond.

This seemed generous and so aided the sale of bonds that the banks were in need of help to carry their part of the load. They were reassured by being told that they could give their own fifteen-day notes to their respective Reserve Banks, provided they would present with them as collateral these same Liberty Bonds that had been purchased by their customers, but which were not to be delivered until fully paid for. They were also assured of the same low interest rate and of an easy renewal of the notes as they fell due.

Imagine still further that this offer brought such general response from the banks that the Reserve Banks were overwhelmed and their officers hurriedly and urgently besought the Secretary of the Treasury for relief, because of their lack of funds. His answer, however, was reassuring. He merely pointed to the other printing press on which were being printed great quantities of Federal Reserve notes, which were furnished to the Federal Reserve Banks as needed.

Thus the Treasury on one press printed paper money (Federal Reserve notes) which it delivered to the twelve Federal Reserve Banks. They in turn gave them to their members in return for the notes of these banks secured by Liberty Bonds. The member banks were then able to pay the government for the bonds struck off on the other printing press.

The description may be fanciful, but only slightly so. In the good old days, say in the Civil War, the process was much more simple and direct. The government printed the United States notes—the greenbacks—and put them directly into circulation. The modern method is more complex and has its advantages, but in many of its features it is the same.

RESPONSIBILITY FOR INFLATION

As a result of the analysis we have been making, it seems clear that the Federal Reserve Board and the officials of the Federal Reserve Banks cannot be charged with responsibility for any "inflation" that occurred down to the summer or fall of 1919. It was due to (1) altered reserve requirements; (2) an influx of gold, and (3) the policies of war financing for which the Treasury Department was chiefly responsible.

Of the three kinds of depreciation mentioned at the beginning of this article two were evident. The American dollar had greatly appreciated in terms of the leading European currencies, so much so that various stabilizing devices were employed. Foreign currencies had depreciated in terms of our dollar. For this condition neither the government nor the Federal Reserve System was responsible. If we had been still operating under the old National Bank Act with all of its rigidity, the foreign exchange situation would have been no better and might have been worse. After a few

months of wild fluctuations foreign governments gained control of the exchanges by using "pegging" devices, an arrangement that would have been much harder to make if our banking system as a whole had been less well organized. After we entered the War responsibility for this control was largely taken over by our government, which of course used the Federal Reserve System as its fiscal agent. From the proceeds of Liberty Bond sales, advances were made to foreign governments, our Treasury Department receiving and holding their notes for the amounts involved.

There was also a depreciation of our own money, the dollar, in terms of commodities. Prices rose rapidly, but as we have noted this was due in the main to (1) the greater possibility of expansion that would have existed under any reorganization of our banking system; (2) the heavy importations of gold and (3) the fiscal policy of the Government.

The second form of depreciation did not occur; at least, there were no outward evidences of it. Our various forms of paper money at no time were depreciated in terms of gold. In case an open gold market had existed, the situation might have been different, and a premium on gold might have appeared, though probably not.

POST-ARMISTICE TRENDS

But what can be said of conditions from the close of the War late in 1918 until the spring of 1920? During this period prices continued to rise, while the volume of Federal Reserve notes and of deposit liabilities rapidly expanded. Gold imports had ceased and in 1919 the movement was reversed, considerable amounts of gold leaving the country. The exchanges of many of the countries that had been neutral during the War (and even those of

many of the minor belligerents) were against us, and, as restraints on the exportation of gold were gradually removed, the gold started out. The War was over, but prices still rose, while note issues and deposit liabilities kept increasing in spite of the fact that the gold reserve was being withdrawn. The percentage of reserves held by the Federal Reserve Banks declined until it was perilously close to the legal minimum.

In this period, what kinds of appreciation and depreciation occurred? At the end of 1918 a number of the exchanges were against us, but by the fall of 1920 all of the leading exchanges were in our favor, with the exception of Hongkong, Shanghai and Yokohama, and they were rapidly falling, especially the first two. Exchanges that had already been in our favor were becoming more so. The American dollar was appreciating in terms of nearly every other money in the world, or, to reverse it, those moneys were depreciating in terms of our dollar.

Commodities were clearly appreciating in terms of our own money, the evidence being the rise of the price level until well into 1920. Our money was depreciating in value in terms of commodities. There was also a tendency toward a depreciation of paper money (including bank deposits) in terms of gold. Reserves were declining and liabilities expanding with a resultant decline in the percentage of reserve held. Considerable uncertainty and doubt appeared, but there was no actual premium on gold recorded. There was merely a tendency that operated as a distinct warning and that called for corrective action.

The movement was therefore a mixed one. Our dollar was appreciating in terms of foreign money, but was depreciating in terms of com-

modities, while our paper money and our bank deposits were being placed in a more and more precarious position with reference to our standard money—gold. The exportation of gold was helping to appreciate our dollar in terms of foreign currencies, but was imperilling the gold standard at home by weakening our gold reserves while bank liabilities were mounting.

CONDITIONS HINDERING RESERVE OFFICIALS

In fairness to the Federal Reserve officials, several facts should be pointed out. First of all war financing was by no means over. The Victory notes were issued in June, 1919, followed from time to time by large blocks of certificates of indebtedness. The actual fighting of the War was over, but the fiscal operations were not. As fiscal agents for the government the Reserve Banks could not immediately free themselves from the responsibilities that have already been described.

Next it should be remembered that what occurred in the United States was in part paralleled in other countries. Prices were rising in England, France, Italy, Sweden and elsewhere, much more rapidly than in the United States. It is true that many of these countries were more seriously affected by the War than we were, but it is not unfair to urge that many of the same influences that were operating abroad were also affecting us. Complete dissociation from so world-wide a movement could not reasonably have been expected. The upward movement which had lifted prices prior to the signing of the Armistice was not exhausted, and the rise continued. Just as military activities were in evidence for a long time, so the economic forces set loose between 1914 and 1918 could not suddenly be reversed.

But this crude analogy between military and economic facts is apt to be very misleading. A more satisfactory explanation is to be found in the fact that the Federal Reserve System was (and for that matter still is) in the first phase of its development. Some of its most important features are not yet fully understood even by many bank officials. Several years after the organization of the Reserve Banks a prominent banker who was serving as director of one of the twelve institutions was said to be unable to grasp some of the fundamentals of the law, and even today a thorough comprehension of some of its leading features is by no means common.

One of the misconceptions that has persisted is the idea that the System is to be merely a source of relief in times of difficulty. That assistance through rediscounting is needed in times of seasonal and cyclical strain is easily understood, but that the Reserve Banks should at all times exercise a supervision over the banking system and often impose its control is not fully realized. Even when the possibility of this control is understood the result is often intense resentment at what seems to be unwarranted interference.

Such control is, however, the usual thing abroad, and the Federal Reserve Act has in it numerous provisions which give a similar power to our system. But legislative authorization is not in itself adequate. The Federal Reserve Board and the officials of the twelve Reserve Banks cannot move too far ahead of public opinion, especially banking opinion, nor can they go too violently in opposition to it. Perhaps the most important single device by which the Reserve Banks can control the money market is the rediscount rate, but the mere statement of that fact does not mean that

they can freely employ this device. An important measure of public support is necessary in case such a power is actually to be used.

WHY THE DISCOUNT RATE WAS NOT RAISED

It has been argued that at the close of active hostilities the Reserve Banks should have exercised this power by rapidly raising their rediscount rates until they were above the rates charged by member banks to their customers. There would then have been no gain to the member banks in rediscounting; they would have curtailed accommodations to their customers and inflation would have quickly been checked. The Bank of England thus controls the money market of England. Why could not our Reserve Banks do the same? What reply can be made to this argument?

Two observations may be made. First of all, the British method has been employed for many years, and the banking community of England is accustomed to it, accepting it as a matter of course. Our Reserve System was authorized in 1913 and not organized until 1914, several months after the Great War had started.

Next, it is to be remembered that from 1914 to 1918, and especially during 1917 and 1918, the fiscal policy of our government made it impossible to initiate such a policy of control. A rediscount rate higher than the market rate, or, at least, one higher than the rate of interest on Liberty Bonds, would have made impossible the methods of financing that were employed.

From 1914 to April, 1917, the Federal Reserve Bank of New York did succeed in keeping its discount rate above that for commercial paper, thus adhering to the policy of the leading foreign banks. With the entrance of the United States into the War,

conditions changed. During 1917 and 1918 the minimum discount rate of the Bank of England was (as is regularly true in England) considerably higher than the market rate on ninety-day bills in London, but during this period the discount rate of the New York Federal Reserve Bank for commercial paper was regularly lower than the prevailing market rate in New York for the same kind of paper. If control of the market had been the only purpose to be kept in mind during this period, it would have been wise to have raised the discount rates of the Reserve Banks more rapidly than market rates rose, and thus have established control.

Armistice Day found the Reserve Banks still not in control of the situation, and able to influence it only to a minor degree by a scrutiny of particular paper presented for discount or by oversight of the rediscounting done by particular member banks. A Victory Loan had to be floated, and other post-war financing was necessary. Moreover, member banks had discounted large amounts of their own obligations at the Reserve Banks with Liberty bonds as security. On November 15, 1918, the total volume of bills discounted with the Reserve Banks secured by government war obligations was \$1,358,416,000, and on February 27, 1920, it was \$1,572,980,000.

Difficulties were accordingly very numerous. To place restraints upon the expansion from 1918 to 1920 would have been difficult, and, even if practicable and desirable, would have called for a very high degree of wisdom and courage. It is the opinion of the writer that our government was very unwise in its decision to float its war issues of bonds and certificates of indebtedness at such low rates of interest. When so large an amount of saving was needed much higher rates would

have been better. The low rates actually offered kept the general security market quiet for a considerable time, but such a policy inevitably meant a rise in prices that injured the general public, including holders of securities, far more than would the offer of higher rates on the new government issues. Nevertheless, the policy was adopted, rates were kept down and the Reserve Banks were and still are the fiscal agents of the government. So long as they are fiscal agents the way in which they perform their other functions must be affected by this relationship.

THE NECESSITY FOR HIGHER DISCOUNT RATES

By the spring of 1920 conditions had somewhat altered. The larger part of war and post-war financing had been completed, and the responsibilities of the Reserve Banks to the government were somewhat lessened. A large volume of rediscounts was still in the possession of the Reserve Banks, but more freedom of movement than before was possible. Accordingly, their policy was altered.

It was clearly time. A very strong case could have been developed for earlier action, but certainly longer delay would have been unwise. Prices were still rising, discounts with the Reserve Banks were increasing and their deposits, and their issues of Federal Reserve notes were mounting with leaps and bounds. The percentage of reserves held was near the legal minimum. All banking experience indicated that danger was ahead. Speculation was rampant, and was sure to be followed by a reaction whose seriousness would be proportionate to the delay in its appearance.

There were several special reasons for concern. Our own spring demand for money was at hand, to be followed

the next fall by the usual fall demands for crop-moving purposes. Also the situation in Europe was most disquieting. Monetary systems there were developing alarming tendencies. Prices were rising, bank liabilities expanding and reserves declining far more than in the United States. If a general collapse had occurred we would have been unable to meet it without a general breakdown of our entire business and financial structure. We were already strained almost to the breaking point.

Under such circumstances it was not possible to rely on the judgment of American business men to impose checks of their own. A few began to contract their operations, but the larger number went on piling up their own liabilities at the banks and extending credits abroad and at home with little or no appreciation of the unsound condition. Early in 1920 the rates were raised. It was none too soon. First in Japan and later in other countries the reaction came and prices began to crumble.

In the face of this collapse credits were extended by member banks to customers, often unwisely, but on the whole with a view to easing business through the trying period of the crisis and the subsequent depression. In turn the Reserve Banks gave assistance to member banks at the new and higher rates, but with a very considerable freedom. After a few months deposits and note issues began to decline and reserve percentages to rise, until a condition of comparative banking security was attained.

It was, however, a trying experience. Those who suffered from the fall in prices resented bitterly the new policy that seemed to them responsible for their losses. The sufferers as separate individuals were not, in most cases, to blame. They were merely a part

of a cumbersome and faulty business organization in which periods of excessive expansion and contraction are a frequent and somewhat regular occurrence. In many individual cases injustice was doubtless done borrowers, but on the whole our constructive criticism should be directed at an economic organization that makes such an outcome possible.

CAUTION STILL IMPERATIVE

Nor is the danger by any means over. The period ending in 1920 was one in which money was depreciating rapidly in terms of commodities, and our deposits and paper money in danger of depreciating in terms of gold, as they have actually done in many other countries. The danger in these directions has for the present at least disappeared. But the very policy of higher discount rates which aided in giving this relief brought with it certain unfortunate consequences. Today the currency of nearly every foreign country is at a heavy discount in New York. Gold was for a time being exported from the United States, but from January 1 to November 1, 1921, the net importations of gold have been about \$564,100,000, and the gold holdings of the Reserve Banks have increased by about 3666,000,000.

This influx of gold, together with a decrease in deposit and note issue liabilities, has increased the percentage of reserves held, and relieved us from one serious danger—that of a reserve deficit. But we are at once faced with another. As reserve ratios rise borrowers cannot understand restraints on borrowing. Depreciated exchanges carry no warning to most of us. Foreign government budgets that fail to balance and the imminence of defaults and perhaps repudiations cause little alarm. A default by Germany in her next reparation payment, now

almost due, seems at this writing almost certain. If it occurs, the effects on French finances and business, and through France on all Europe, will be almost incalculable in their gravity.

It is a time for the exercise of the greatest caution. No matter what policy we adopt, hardships will result. Our choice is merely between evils, and no matter what our decision the path ahead is by no means bright. Higher discount rates in the face of the depreciated exchanges means still heavier gold imports. Withdrawal of gold from foreign countries weakens them still more, and adds to our stock of gold that is already disproportionately large.

On the other hand, low interest rates encourage an expansion which ought for our own sakes to be held in check. High bank reserves are by no means a sufficient excuse for a generous loan policy at the present time. A combination of low rates with a careful limitation of loans is the ideal, but very difficult of attainment.

Since default by Germany seems so imminent the sooner it is faced the better, even if it is disguised as a moratorium. After it comes there will be a more general appreciation of what is ahead, and plans can be more effectively made for real recovery. One of our present dangers is the possibility of developing an unhealthy optimism that will lead to a business expansion, too rapid and in wrong directions. If it occurs, the reaction will be worse than a prolongation of the present depression. Gradual recovery is trying, but will be far better.

Then, too, we may hope that during the period of readjustment our Federal Reserve Bank will be able to secure control of the money rate. Such a control will be no panacea, but it will be an important aid in bringing more stability in our monetary and banking system.

Expansion and Contraction as Seen by a Business Man

By J. V. FARWELL

President, John V. Farwell Company, Chicago

EXPANSION and contraction in volume of business and in credits have always existed in modern times. Human nature is such and conditions of production and consumption are such that there can be no dead level. Unfortunately, these tendencies nearly always run to extremes, so that we usually have, about once in so often, periods of over-expansion, and, as a consequence, we get over-contraction. Many bankers will admit the existence of the first of these extremes, but they are not so ready to admit the second. It seems to me that both are very real, and that in many cases both of these extremes can be prevented.

As the process of expansion is going on, each business sees most clearly the part that applies to its own experience, while the rest of the process is often either unseen or obscure. A business man, either in manufacturing or distributing, comes in contact with the processes of expansion, from the beginning to the end, from the time when the contract is first made to the end when credit is made for financing and the credit given in selling. Over-expansion is pretty sure to occur whenever such contract is made for a larger quantity than a normal amount used by the business concern, or when it runs through a longer period of time in the future than is ordinarily contracted for by the company, or when the contract is made for a price considerably in excess of the cost of production.

The first step in this expansion is caused, as a rule, by the state of mind of the buyer, who thinks he sees a much larger business ahead than the company has ever had before, or who believes that goods are going to be very scarce,

as when the war purchases were being made, and that prices are going higher. It is this thought that produces his act of expansion. This thought and this act are often contagious, so that other people take up the idea and a feverish state of mind, like an epidemic, sets in among all buyers, which results in large purchases for delivery running over a long period of time.

HOW BANKERS COULD CHECK OVER-EXPANSION

In the distributing business, for instance, such buying requires at the start very little credit, and necessitates hardly any simultaneous credit expansion. The wholesaler might place an order for one thousand cases of cotton goods to be delivered during six months, beginning three to six months after date of purchase, the seller being sold up until that time. All that the manufacturer has to do is to cover his cotton on the cotton exchange and put up a margin for so doing. The wholesaler puts up no money at all and no credit. In fact, no credit would be required from the banks for, say, sixty to ninety days, when the first shipment of cotton is to be paid for, and no bank credit asked for by the distributor or wholesaler for perhaps six months, when the bill of the first delivery becomes due.

It is obvious, therefore, that while the business man sees expansion both at time of making the contract and at the time when he asks for credit to pay his bill, the banker would know nothing, except in a general way, of the great mass of purchases so made until some time after the contracts were signed, and perhaps not until the bills came due. Bankers are well posted

in a general way only as to what their customers are doing or expect to do. In my judgment, they should always find out from their customers not only what their stock on hand is at a given time, but also what their commitments or advance purchases are, as these commitments are often the source of as great a loss in the case of a falling market as is stock on hand. If bankers asked these questions continually, especially at the period of requiring statements from their customers, they would be in a better position to check over-expansion at the start, by either discouraging purchases or refusing to give the necessary credit or raising the rate of interest charged.

If, in turn, the Federal Reserve Banks were kept in close touch with all these movements through the leading banks and merchants, as is now being done in many centers, this frenzied state of mind could be cooled off, and large contracts for future high prices prevented. The disease would be stopped before it became an epidemic. It is for this reason that it seems to a business man that rates of the Federal Reserve System should be raised just as soon as bankers see this situation of expanding contracts coming on, not when the bill comes due and the customer asks for credit to pay for it. At that time, the banker can do only one of three things: First, grant the credit; second, advise the customer to repudiate the contract, which he would do under the circumstances, and third, let him squirm out as best he can, no matter what the loss. The last course would probably cause many failures.

FEAR CHECKS OVER-EXPANSION

Over-expansion can be prevented only by arousing in the mind of the buyer a fear that if he makes an excessive contract at high prices, he will get into trouble. He has been led to think

in a general way that under the Federal Reserve System his bank would always look after him and there could be no trouble. Many told him if a decline in prices did occur, it would come gradually, even though all history tells us that over-expansion breaks suddenly and prices come down sharply. Even with prices raised to three or four times above normal, it was often felt that no merchandising difficulties could arise, for do we not have the Federal Reserve Banks?

Under the old system, before the Federal Reserve Act was passed, every bank had to depend to a great extent on its own resources, and to live or die according to the distance it got from shore in a storm. This restricted the banker's available credit and lessened the merchant's confidence in getting help. Both banker and business man had a very well defined fear of over-expanding.

While the Great War was on, and even after the Federal Reserve Act was passed, no merchant felt like buying a large amount of goods at high prices for long-time future delivery, as no one could tell when it would be over. When it was started, some thought it would last ninety days, some thought it would last one year, and some two or three years, but it was all uncertain, and bankers and merchants stayed pretty close to shore. They were assisted in not buying at high prices by the action of the government in arranging price fixing bureaus.

When the War did end, there were no large contracts outstanding at high prices and it took only three or four months to make the proper re-adjustments. After that, however, merchants and bankers lost not only all the fear which they had had before the Federal Reserve Act was passed, and which formerly produced panics, but also all the fear which existed while the War was on.

NEED OF A PROGRESSIVE REDISCOUNT RATE

As this fear is very necessary to both banker and business man, I am much in favor of the progressive rate of rediscount, so that those who have the disposition to offend will know in advance that they will be heavily penalized. As the phrase goes, that clause "puts teeth in the law" and the one who first over-expands should be bitten first. A level rate puts all in advance in the same category and does not stop over-expansion at the particular source where it has started. Another reason why the progressive rate law should never be repealed is that in many districts in the United States 8 per cent is the normal rate, and 10 per cent not uncommon. Instead of there being a penalty in charging such banks 7 per cent there is a constant inducement left for them to expand. Federal Reserve Banks must have a sliding scale of rates to meet such common conditions.

As this over-expansion did not occur in the case of all banks and in all districts, but with only a certain percentage of the banks in every district, and as some large banks in big districts were just as bad offenders as the small banks in country places, it seems to me obvious that such a law is not only wise but necessary, in order to prevent over-expansion at the real source whenever it may crop out.

INTEREST RATES ONLY ONE CHECK ON OVER-EXPANSION

Perhaps I have laid too much stress on the efficiency of the rate of interest to stop over-expansion. It is only one of the remedies. Bankers themselves will have many instances where they will have to curb banks and merchants who are willing to pay high rates, if only they are allowed to continue in

their mad careers. Federal Reserve Banks, more than ever before, will have to hold a tighter rein to stop such careers by flatly refusing to make loans and especially by stating beforehand that they will so act. Only such advance information, inspiring the proper fear, will prevent the first acts of over-expansion, which, if allowed, bring all others in their train with all the consequent disasters.

The solution is in the hands of the banker. If he will get at the facts and use his strategic position in granting or refusing loans and regulating rates of interest, he could check this over-expansion before it becomes dangerous. In saying this, I do not mean that the banker is as responsible as the business man in starting over-expansion, for the business man is the one who acts first. However, the banker often has a broader view of general conditions, not only in this country, but all over the world, and can, therefore, see the general trend of things earlier. It is for this reason that I have at other times contended that the various Federal Reserve Banks should have raised their rate sharply in November and December, 1919, when the large buying movement at high prices began. Instead of doing that, rates then were as low as $4\frac{1}{2}$ per cent for rediscount with the Federal Reserve Banks. This was almost an invitation to buy heavily and certainly would lead an ordinary business man to assume there would be nothing wrong with the credit situation in the near future.

PREVENTION OF INVENTORY SHRINKAGE

The second important process in general expansion takes place when the various business concerns find their excessive bills coming due and are obliged to resort to banks for large loans. As these goods have been

bought in large quantities at high prices, it takes from two to three times a normal loan to carry a given amount of actual merchandise. This is repeated many times all over the country and all down the line through the different processes of manufacturing. The deposits and loans go up and discounts at the Federal Reserve Banks increase. While this paper so discounted is, in one sense, self-liquidating, as the term goes, that is only true insofar as the prices at which goods are bought can be maintained.

If prices go down half rather sharply, as they did in the fall of 1920, it is only one-half self-liquidating, and if the quantities bought at the high prices are far above normal, it may only be one-fourth self-liquidating, because the concern which bought the goods has no normal channels through which the merchandise can be sold. This brings upon the market so-called "distressed merchandise" which is sold regardless of cost or competition, and aggravates still further an already disastrous situation. It is for this reason that the banker should be somewhat familiar with the prices at which goods are bought, as compared with normal prices, before he encourages a merchant to buy, or before he gets the whole economic structure, including Federal Reserve rediscounts, built up on the basis of high prices.

The Federal Reserve Banks have, in my opinion, been very unjustly criticised for raising rates above six per cent, as though the raising of the rates in the spring of 1920 caused all the trouble. My only criticism is that they did not raise them early enough and before all the harm was done by the making of the vast amount of long-term contracts at the highest prices since the Civil War. They had to act some time, and it was better late than never. The inverted pyramid

would have toppled over any way, but less damage would have been done by the fall if the base, which was up in the air, had not been allowed to grow so large.

PREVENTION OF OVER-CONTRACTION.

While nearly every one admits that over-expansion can be checked, all do not agree that over-contraction can be prevented. Many bankers have told me that we must have a thorough liquidation, which means, in the last analysis, that prices must go below cost of production, mills close up, business stop, much of the circulation of credit and merchandise cease, until this thorough liquidation has run its course. Before the days of doctors and the use of remedial measures, it was undoubtedly thought that all epidemics would have to run their course, that nothing could be done but let the people die. In other words, we must have a thorough "liquidation" and death of people. It is well known that a proper mental condition of the patient is often just as necessary as some stimulus to help out the heart action. So in business affairs, proper mental attitude and some assistance from banks and business men generally is necessary to prevent contraction's going the limit. I think that there are often times when it is evident that contraction has about reached the end, and when the mercantile speculation fever at least has gone. At that time interest rates should be reduced before the irreducible minimum has arrived and some inducement made for people to go ahead and do business, so as to bring about a movement of merchandise and a better employment of the great army of unemployed, which always increases greatly during an aftermath of extreme contraction.

The War Finance Corporation has stepped in and done some of this work

during the last nine months with great judgment and success. It is extremely fortunate that we had some such organization to prevent the so-called complete and disorderly liquidation, which some interests seemed to think absolutely essential to better times.

EDUCATION THE REMEDY FOR OVER-EXPANSION AND OVER-CONTRACTION

It is evident that the banker and the business man are in a sense trustees of the prosperity of the nation, in that their combined acts, if unchecked, may bring about hard times and unemployment to thousands of men who have no power of decision in starting a movement which will result so disastrously. I say they have no decision in making the start, although, after it is about half way along, the wage earners have much to say when they begin to buy heavily, and, feeling

higher and rising cost of living, begin to demand more pay, which, in turn, adds to the price of the manufactured articles.

On the other hand, in times of over-contraction, the business man and the banker have often lost their power of direction and voluntary decision. They are controlled almost entirely by the general populace, which refuses to buy, and by the wage earner, who will not consent to a reduction of his wages commensurate with the changed cost of living and the new world conditions brought about by the collapse of the boom. It seems to me, therefore, that education is needed on both sides, first to prevent expansion from becoming *over*-expansion and contraction from becoming *over*-contraction. Sound common sense and experience will finally be the teachers if expert economists are not.

Currency Expansion and Contraction

By JAMES B. FORGAN

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AS is well known, the Federal Reserve System is the result of the financial panic of 1907. At least, it was this financial crisis that hastened the establishment of a more rational system of issuing currency than had previously prevailed in the United States. To be sure, there had been earlier movements to make possible an automatic expansion and contraction of our currency. As far back as 1902, and probably earlier, there are to be found discussions in regard to our currency at every convention of the American Bankers Association. Long before the Federal Reserve Act was thought of, it was clear to any thinking banker that our whole cur-

rency system needed a thorough revision. In 1902 Charles N. Fowler, Charles G. Dawes and Horace White made addresses dealing with the currency problem at the convention of the American Bankers Association. The chief difference of opinion in that day was between the advocates of a highly taxed emergency currency and those of a low taxed credit currency, or, as General Dawes spoke of it, "a system of asset currency subject only to a nominal tax." As a result of this agitation, there was appointed at that meeting, held in New Orleans, a special Currency Committee, a forerunner of the Currency Commission which still exists. The Currency Committee ap-

pointed in 1902 made a report at the meeting of the American Bankers Association held in San Francisco in 1903, in which it favored an emergency circulation subject to a heavy tax, which, it was hoped, would insure the redemption of this currency as soon as the emergency which had called it forth had passed. Discussions continued until the agitation finally led to the appointment by the Association at its convention in St. Louis, October 16-9, 1906, of the present Currency Commission, of which Mr. A. B. Hepburn of New York has been Chairman and the writer of this article, Vice-Chairman, ever since its creation. Its first report appears (pages 100 and following) in the Appendix of the Proceedings of the Thirty-Third Annual Convention of the American Bankers Association, held at Atlantic City, September 24-7, 1907. Practically everything that now appears in the Federal Reserve Act was foreshadowed in the discussions of this Commission.

LESSON OF MONEY PANIC OF 1907

Probably these discussions would have continued to be haphazard and without practical result had it not been for the financial panic of 1907. There is no need to go into the history of this panic in this article. Its interest to us is due to the fact that it made clear to the public at large what had long been known to experienced bankers, that the country was liable at any moment to suffer all the evils of business depression, not because of any inherent difficulties in the business situation but owing solely to the faulty mechanism which prevented the expansion and contraction of the circulating media in accordance with momentary requirements. The panic of 1907 was due simply to the fact that the government was unable to issue a sufficiently large amount of paper

money to tide over a temporary situation, and, owing to this inability, a number of banks failed, and perfectly solvent corporations and business firms found themselves in financial difficulties without in the least being guilty of any commercial sins of commission or omission. The situation had to be tided over by extra legal methods, such as the issuance by clearing houses of certificates which really took the place of ordinary currency and were, therefore, a direct violation of the provisions of the Federal Constitution. A recent writer has summarized the condition as follows:

The chief defect of the old national banking system was its decentralization resulting in scattered bank reserves. Even though the national banks of the United States possessed enormous aggregate cash reserves yet, before the establishment of the Federal Reserve System, those reserves were ineffective. There was no method of mobilizing cash for use where and when it was needed. No responsible body was empowered to adopt or carry out discount or other policies to avoid a financial panic or to handle a panic when it occurred. Other countries had economic crises; the United States not only had crises but financial panics as well. This is the reason that under the national banking system the United States was called "an international financial nuisance."¹

As a result of the experiences of 1907, public opinion compelled Congress to take some action, and it appointed the National Monetary Commission. Thereafter, the Currency Commission of the American Bankers Association acted largely in an advisory capacity to the governmental body with which it held frequent conferences in Washington. Out of this grew, first, the Aldrich-Vreeland Act, and, later on, the Federal Reserve Act.

¹ Persons, "Basis for Credit Expansion." Harvard Committee on Economic Research. Vol. II, p. 21.

CURRENCY FUNCTION OF RESERVE
SYSTEM

The Federal Reserve Act, in the first instance, is designed not so much for the purpose of compelling banks to keep certain fixed reserves and the like, as, primarily, to meet the changing requirements for currency, a function which the large central banks of Europe have performed for their respective countries for many decades. It is difficult to see how we could have weathered the storm of the War and the years immediately following without some such arrangement as that provided by the Federal Reserve System. It is a well known fact that the banks have been and are carrying many industries which would have been forced to the wall, injuring our whole credit structure, had it not been for the fact that the banks in turn have been able to obtain needed currency from the Federal Reserve Banks by rediscounting notes. Since banks are compelled to meet the demands made upon them by payment of currency over their counters, they would otherwise have reached the end of their resources almost immediately, owing to the tremendous expansion of business caused by the War. They would, therefore, in order to meet their own liabilities, have been compelled to call upon business houses to pay off their loans and, if necessary, would have had to demand the liquidation of perfectly solvent business enterprises in order to obtain the needed repayment. The banks, fortunately for our whole country, have not needed to resort to such extreme measures, owing to the rediscount privileges inaugurated by the Federal Reserve System, with which rediscount privileges our currency system is closely connected.

The Federal Reserve Act provides that any Federal Reserve Bank may issue Federal Reserve notes based on

collateral security consisting of notes, drafts, bills of exchange or acceptances acquired either by purchase in the open market or through the rediscount privileges exercised by its member banks. The Bank is compelled, in addition, to maintain reserves of gold of not less than forty per centum against its Federal Reserve notes in actual circulation. This gold reserve held against Federal Reserve notes may fall below forty per centum, in which case "the Federal Reserve Board shall establish a graduated tax of not more than one per centum per annum upon such deficiency until the reserves fall to thirty-two and one-half per centum, and when said reserve falls below thirty-two and one-half per centum, a tax at the rate increasingly of not less than one and one-half per centum per annum upon each two and one-half per centum or fraction thereof that such reserve falls below thirty-two and one-half per centum."²

It is interesting to note that practice has shown that this check provided by the Act has proved to be entirely sufficient under the most exacting and trying conditions. Though there have been times within the last few years when the net reserve of gold against Federal Reserve notes outstanding was dangerously close to the legal minimum required, the ratio never actually fell below forty per centum.

It is under these provisions that the so-called expansion and contraction of our currency has taken place and is taking place. The total circulation of currency of all kinds in the country on September 1, 1921, was \$4,672,030,221, of which more than one-half was represented by Federal Reserve notes. While at the beginning of this year the total circulation of all currency amounted to \$5,500,702,153, the

² Federal Reserve Act. Sec. 11 (c).

changes were almost entirely in the item of Federal Reserve notes, since the rest of the currency is more or less constant.

CURRENCY INFLATION AND DEFLATION

Before going further into this question of expansion and contraction of our currency, it is necessary to distinguish sharply between currency expansion and currency inflation. A recent article defines these terms as follows:

Currency expansion is the absolute increase in currency of various forms—chiefly gold, silver, bank notes, government notes, and deposits subject to check. Its opposite is *contraction* of the currency. *Currency inflation*, on the other hand, is relative, that is to say, an expansion of currency *out of proportion* to the increase in the absolute quantities of goods and services exchanged, due allowance being made for variations in offsets of book credits, in the "rapidity of circulation" of currency, and in the frequency with which goods and services are exchanged. The reverse is *currency deflation*—a decline in currency relative to the amount of goods and services exchanged. Currency inflation rarely takes place in exact proportion to currency expansion, or deflation in proportion to contraction, since changes in quantities of goods and services exchanged are constantly taking place. For the same or other causes, the equivalent of currency inflation or deflation, or, one might say, *effective* currency inflation or deflation, may take place without corresponding changes in the quantity of currency. So, after the Civil War, deflation in the United States was accomplished in the main, by "growing up to the currency" rather than by contraction. On the other hand, changes in the currency requirements ordinarily take place slowly; consequently, a marked expansion of currency usually involves currency inflation; and deflation is usually accomplished but slowly if it is unaccompanied by contraction of the currency.³

³ Davis, "World Currency Expansion." Harvard Committee on Economic Research. Vol. II, p. 8.

From this it is evident that under the Federal Reserve Act we have had almost no experience in expansion and contraction, though more than enough in inflation and, at present, in deflation. In other words, the establishment of the Federal Reserve System was followed almost immediately by the crisis brought on by the European War, which, owing to governmental needs, brought about an inflation of the currency entirely out of proportion to the ordinary normal business requirements. Likewise, the reaction that has taken place since last year is a process of deflation, again out of all proportion to what is to be expected under normal and regular business conditions. One thing, however, has been proved, and that is that the raising and lowering of the rediscount rates by the Federal Reserve Banks influences very greatly the lending of money by the banks. The question may be raised whether this is not due more to the pressure of the example set by the Federal Reserve Banks than to the mere change of a relatively small percentage in the rediscount rate. But be that as it may, the banks in the country have followed the lead of the Federal Reserve System. Possibly it would have been well if the raising of the rediscount rates after the Armistice had taken place earlier. It is an open secret that the members of the Federal Reserve Board, as well as of the Federal Advisory Council, advocated such a policy long before it was put into effect. The needs of the government, however, intervened, and the necessity for the Treasury to complete its wartime funding operations superseded the dictates of a sound economic policy. Likewise, the successive lowering of the rediscount rate may be due more to the exigencies of politics than of sound banking practice. A recent

pamphlet issued by the Chase National Bank of New York has presented many effective arguments which tend to show that the rediscount rates ought to be determined by the prevailing commercial paper rate, rather than by other considerations.

The peak of Federal Reserve notes in actual circulation was reached on October 22, 1920, at which time these amounted to \$3,356,199,000. These notes were first issued in November, 1914, but in the beginning increased very slowly. Even as late as July 1, 1917, the total of Federal Reserve notes outstanding was only \$544,412,775. By July 1, 1918, the amount had, however, more than trebled, amounting at that time to \$1,713,074,255. At the time of the Armistice, the amount had increased to \$2,562,517,000, and on September 21, of this year, the amount in circulation was still \$2,474,676,000, a reduction, however, of nearly one billion dollars from the highest point. It is to be hoped that this reduction will continue until we reach a point which may be regarded as meeting the normal requirements of business. Until now, banks of the country have acted in a patriotic manner and have generally forced liquidation. It may be feared, however, that such an unselfish policy will not be continued indefinitely if the Federal Reserve Banks, by keeping the rediscount rate below the ordinary commercial rate, make it profitable for their member banks to lend as much as possible. We therefore face the danger of a period of renewed inflation which must not be confounded with normal expansion as defined above.

CURRENCY EXPANSION AND CONTRACTION

As already indicated, the real function of the Federal Reserve System is to make possible the expansion and

contraction of the currency, demanded by the continuing changes in business conditions. As the country becomes more densely settled and industrial development continues, there will be need for a gradual permanent expansion of currency which will be met partly by increase in actual metal, but largely by the increase in other forms of currency. Beside such, permanent increase, there will be the seasonal expansion and contraction which appears in the statistics of the central banks of all the larger countries. These seasonal changes do not coincide in the various countries. In countries with little agriculture, which are, therefore, compelled to import most of their raw materials, the time of largest expansion is apt to fall at a different time of the year from that in countries which are solely or very largely agricultural. We are in a transition period and what is true today may not be true a few decades hence. At present, however, our period of largest expansion is likely to be at crop-moving time, with contraction taking place after the operations connected with the movement of the crops have been completed.

Probably for the present, the experiences of Canada are most likely to furnish us an example. Canada's banking system is centered in a group of so-called chartered banks, of which there were twenty-four in 1914 and only eighteen in 1920. These banks have over four thousand branches throughout the Dominion, providing for its commercial needs and, in addition, serving as the chief savings institutions of the country. They are subject to comparatively little governmental supervision, although the Canadian Bankers' Association is a public institution whose secretary-treasurer has supervisory power over note issues. The banks are required to

make a monthly report of their condition to the minister of finance.

Canada's currency consists for the most part of bank notes. The banks are authorized by law to issue notes up to the amount of their paid-up unimpaired capital plus any amount they may have on deposit in the central gold reserve. In addition to that, during the crop-moving season they are permitted to issue additional notes up to 15 per cent of their capital and surplus combined, but this additional circulation bears interest at 5 per cent. The privilege of issuing additional circulation may be extended to cover the entire year, and, as a matter of fact, has been so extended during recent years. The chartered banks are not required to carry any special reserves against their circulation, except that they must deposit with the minister of finance, gold or Dominion notes up to 5 per cent of their average circulation. These deposits constitute the bank-note redemption fund. The principal security against circulation, however, is found in the fact that the notes are a first lien on the banks' total assets and in the further fact that the stockholders are subject to double liability on the notes. Bank notes are legal tender throughout the Dominion. It is to the interest of each bank to maintain as high a circulation of its own notes as the law permits. Each bank will, therefore, pay its customers over its counter only notes issued by itself. When the community's need for circulation contracts, notes will be deposited in the banks and the banks will return to the issuing banks the notes in their possession, and thus reduce the outstanding volume of circulation. In other words, since the notes are obtainable from any bank on demand and on the other hand can always be deposited with the banks as soon as they are not needed, the circulation in the hands of the public does not exceed the requirements of trade and industry.⁴

The Canadian statistics for the years immediately preceding the War and those since the War are given in next column.

⁴ *Federal Reserve Bulletin*. December 1919. p. 1142.

CIRCULATION OF BANK NOTES IN CANADA

	1911	1912	1913	1919	1920	1921
January.....	77,110,971	88,065,521	94,575,644	226,385,506	237,269,805	229,608,213
February.....	79,927,785	88,920,598	97,906,713	210,894,809	223,979,666	211,640,296
March.....	81,938,753	93,819,333	102,202,047	216,529,576	231,220,770	215,931,035
April.....	83,647,088	95,145,371	98,100,111	223,763,426	243,226,193	216,202,907
May.....	81,862,218	93,819,333	102,997,936	219,297,788	235,085,179	207,359,887
June.....	88,618,699	102,011,848	105,697,629	222,712,991	238,088,555	207,056,687
July.....	89,018,079	95,927,534	99,143,411	223,662,648	240,833,686	203,194,777
August.....	90,630,550	101,501,270	105,806,914	223,454,556	237,697,647	197,461,372
September.....	97,197,176	104,334,287	111,075,319	229,532,356	242,988,866	.....
October.....	105,855,021	110,696,877	118,234,859	242,509,573	252,882,760	.....
November.....	101,943,056	115,473,096	119,497,321	248,073,385	253,576,534	.....
December.....	102,037,305	110,048,357	108,646,425	247,611,079	246,859,667	.....

It will be noticed that the circulation increases very largely in the last months of each year and decreases at the beginning of the year. This has been true even since the War, in spite of the fact that Canada has had a period of inflation similar to our own. It is also interesting to note in this table that naturally there has been a very large increase of bank notes since the War, and that the contraction which has taken place has by no means been sufficient to bring the total back to that of the pre-war period. Probably this is due in Canada, as in our own country, to the fact that part of the apparent inflation is really a natural expansion due to general commercial development within the country.

In the case of the European countries, on the other hand, the inflation has been much more severe, culminating in Austria Hungary, where the note issues of the central banks increased twenty-fold. Everywhere the elasticity of the currency provided by central banking institutions has prevented the most severe financial panics, though, of course, nowhere could it prevent commercial crises due to the general situation.

PROPER POLICY AS TO REDISCOUNT RATES

To summarize: Bankers have had too little experience to state definitely how the expansion and contraction of the currency under the Federal Reserve System is going to work under normal conditions. The unusual stress to which the Federal Reserve System was subjected at the very outset must make bankers and business men everywhere realize that the System, if properly managed and kept free from politics, ought to have no difficulty whatsoever in functioning satisfactorily

during normal and less trying years. It will be necessary, however, for the Federal Reserve Banks to educate the bankers of the country gradually to a conception that the Federal Reserve Banks are to be regarded strictly, as their name implies, as a last resort, and that the rediscount privileges are to be used, therefore, sparingly and only in times of stress and strain. There is a danger that, owing to the peculiar conditions under which the System began, its reserve function may have been forgotten. If the Federal Reserve Banks will have the courage to keep the rediscount rates above the prevailing market rate, banks and bankers will gradually learn to make use of their rediscount privileges only in case of real necessity.

This may cut down the large profits which the Federal Reserve Banks have earned in recent years but, after all, the reason for the establishment of these banks was not to earn money either for themselves or for the government, but to prevent losses to the business and banking communities of the country. Every true well-wisher of the Federal Reserve System will desire that in course of time it limit itself to the purposes for which it was created, that it may be kept out of politics, and that it may not be used as a panacea for all financial evils threatening the country as a whole, or any class or section thereof. Its real, primary and sole function is, and ought to be, to provide an elastic currency which may prevent unnecessary financial panics of which we have experienced too many in the past. As one who had much to do with the discussions preceding its creation and who acted as a fatherly adviser during the years of its infancy, the writer expresses the wish: *vivat, crescat, floreat.*

Expansion and Contraction from the Federal Reserve Standpoint

By JOHN H. RICH

Chairman and Federal Reserve Agent, Federal Reserve Bank of Minneapolis

IF kept clearly in mind, several facts will aid in an understanding of the problems which the Federal Reserve Banks have encountered in attempting to exercise an appropriate and scientific control over the expansion and contraction of both currency and credit. The United States is a country of immense extent, of the greatest diversity in its stages of development, in production and in the local availability of capital and investment funds. It is a comparatively new country and in the less developed sections banking is more of a business than a profession. As a nation we lack the beneficial influences of custom, precedent and the fruits of ancient experience. Instead of a homogeneous population, we have invited racial elements from every part of the earth, who have brought with them their own peculiar ideas and customs, all of which must be recognized from the standpoint of practical banking, and all of which tend to exert influences that retard the adoption of uniform practices and scientific banking methods. Bank management is of as diverse a character as the primary interests of the various states, and, broadly

speaking, is a matter of adaptability to circumstances rather than the product of careful observance of economic law, sound financial principles and scientific methods. This thought might be summarized in the statement that banking is in a highly evolutionary condition in the United States, and that for the past ten years the period has been a transition from a rather archaic and outworn banking system to a modern and scientific mechanism, somewhat broader than banking itself, that will eventually provide the United States with the efficient system for banking, exchange and credit control which it needs as its equipment for a proper participation in the financial activities of the world.

POWERS OF RESERVE SYSTEM LIMITED

In the nature of things, the Federal Reserve System is not all-inclusive. The System embraces in it only the national banks of the United States, although the Federal Reserve Act also extends liberal privileges to the much more numerous state banks and trust companies. In membership,¹ the Federal Reserve System embraces 9,745

¹ U. S. Bank Figures—June 30, 1921.

	Total ^a	In F. R. Sys. ^b	Per Cent Total	Out of F. R. Sys.	Per Cent Total
No. of Banks	30,815	9,745	31.6	21,070	68.4
Capital	\$2,904,511,000	\$1,858,710,000	63.9	\$1,045,801,000	36.1
Sur. & Undiv. Pf.	3,454,639,000	2,273,795,000	65.8	1,180,844,000	34.2
Total Resource	49,688,839,000	30,883,023,000	62.2	18,805,816,000	37.8
Loans & Dis. & Redis.	28,944,708,000	18,551,120,000	64.2	10,393,588,000	35.8
Investments	11,384,334,000	6,104,655,000	53.6	5,279,679,000	46.4
Bal. due from banks	4,795,887,000	2,978,276,000	62.1	1,817,111,000	37.9
Individual deposits	35,472,563,000	19,658,809,000	55.4	15,813,754,000	44.6
Nts. & Bills redis.	1,271,684,000	1,243,764,000	97.8	27,920,000	2.2
Bills payable	1,376,891,000	812,241,000	59.0	564,650,000	41.0

^a Comptroller of Currency's Press Statement, October 31, 1921.

^b Federal Reserve Board Report, June 30, 1921.

institutions out of 30,815 in this country, or 31.6 per cent. It includes 63.9 per cent of the banking capital of the United States; 65.8 per cent of the surplus and undivided profits, and it comprehends 62.2 per cent of the total resources, and was carrying on June 30 of the present year, 64.2 per cent of the loans and discounts, including rediscounts, of the country. It then held a little more than half of the individual deposits of the United States. With two-thirds of the membership and more than one-third of the resources of the banks of the country outside of the system, it is obviously impossible to expect it to exercise any complete control over expansion and contraction of credit. Its power over currency expansion and contraction is limited, due to the competition of other forms of money than Federal Reserve and Federal Reserve Bank notes.²

The rather powerful influence which the Federal Reserve System exercised during the war period, particularly since the radical advances in commodity prices, was fortuitous and due largely to the fact that under the country's pressing need for a sharply increased volume of currency with which to handle its current exchanges, its previously existing and rather inflexible issues were submerged to the extent that the overburden of Federal Reserve notes and Federal Reserve Bank notes became the dominating factor in the currency situation. This

was due to the quick responsiveness of these notes to any demands for issue and the fact that they cannot be kept in circulation except in response to demand.

Another factor of great importance in connection with the whole question of expansion and contraction relates to the actual degree of power which the Federal Reserve System is able to exercise over its membership. Its powers are specifically indicated in the law³ and are in the main of a general and supervisory character. The law seems to indicate quite clearly what specific rights a member in the Federal Reserve System enjoys, but limits in quite a distinct way the power and control over members to be exercised either by the Federal Reserve Banks or the Federal Reserve Board. In a certain sense and considering the subject purely from a practical standpoint, the real powers of a Federal Reserve Bank over its members are indirect and rise out of its contact and association with members at times when they are borrowing. It is difficult to see what very practical powers a Federal Reserve Bank might exercise over the non-borrowing element in its membership. Every Federal Reserve Bank has had such an element of rather substantial proportions throughout the war period. It is authorized to insist that its members maintain their capital stock at the figures fixed by law, that they carry unimpaired reserves and that they make appropriate periodic reports. It is divested of any power to control the policies or loan operations of members and has no authority whatsoever over the rates charged by a member to its customers.

It naturally has no powers of any

² The Secretary of the Treasury's Circulation Statement of October 1, 1921 shows gold coin and bullion, \$903,163,000; gold certificates, \$514,901,000; silver dollars, \$75,388,000; silver certificates, \$226,610,000; subsidiary silver, \$261,602,000; treasury notes of 1890, \$1,562,000; United States notes, \$341,613,000; national bank notes, \$728,314,000; or a total of \$3,053,153,000 as compared with \$2,518,963,000 of Federal Reserve notes and \$119,163,000 of Federal Reserve Bank notes, or a total of \$2,638,126,000 of Federal Reserve issues.

³ See Section 13 of the Federal Reserve Act. Powers of Federal Reserve Banks—Section 11. Powers of the Federal Reserve Board—Section 4. Corporate powers of Federal Reserve Banks.

character over the numerous non-member banks, except that through wise leadership it may inspire the desire to conform to sound policies. In a period of inflation the rapid expansion of member banks' loans and discounts becomes a matter of first importance. Over such a rising tide of borrowings the power of a Federal Reserve Bank is limited. It can restrict, or, for cause, it might refuse the application of a member to rediscount; but its ability to control is largely centered in its position as an adviser in which it would employ the facts developed by its examiners and endeavor to create a clear understanding of all the factors which the situation might involve. In this capacity its value would be largely through wise suggestion and guidance.

There is therefore some question as to the degree of power to control which the Federal Reserve System has over even its own membership. Its real power, which cannot be denied, lies not in legal authorization or specific grant of regulatory authority, but in the confidence it can inspire because of sound leadership and the value it can give to membership because of the business advantages flowing therefrom. An important degree of voluntary coöperation has existed and extends far beyond the confines of its own membership, due to the enlightened self-interest of progressive institutions. It might be said that in a sense the Federal Reserve System, while it is an efficient organization, is more like a voluntary federation of common interests for their own good.

CURRENCY EXPANSION AND CONTRACTION

Not a great deal need be said of currency expansion and contraction as it relates to Federal Reserve issues. The mechanism by which this is accom-

plished is clearly stated in the law⁴ under which each Federal Reserve agent in each Federal Reserve Bank, with the approval of the Federal Reserve Board, is authorized to draw from the Comptroller of the Currency and issue to his Federal Reserve Bank on the presentation of gold and proper collateral, Federal Reserve notes for issue to member banks. Upon the application of a member bank in good standing, accompanied by a tender of eligible paper for rediscount and credit, the Federal Reserve Bank in practice immediately delivers Federal Reserve and Federal Reserve Bank notes in such amounts as may be requested. The process of issue is therefore as nearly automatic as may be, and is properly founded upon the assumption that member banks will not request Federal Reserve issues unless they need them and that the necessities of their communities will rule.

Once issued, the Federal Reserve note moves through the member bank into the hands of the public and when it is no longer needed will find its way back into a bank. Banks which have accumulated more currency than they have use for, will remit to their correspondents or to their Federal Reserve Bank direct. The correspondents are largely members of the Federal Reserve System and the remittance of their excess accumulations is a matter of daily routine. Upon receipt by a Federal Reserve Bank, returned notes are sorted and under the law must be shipped at once for credit to the bank of issue. The particular Federal Reserve Bank has therefore no right of reissue except as to its own notes. Those consigned to other Federal Reserve Banks will reissue or not as the demand of that Federal Reserve District may indicate. If they do not re-

⁴ Federal Reserve Act, Section 16. Note Issues.

issue, they are ordinarily returned for credit to the Federal Reserve agent or if worn and unfit find their way to early redemption and destruction. If fit, they are stored against the next period of demand. The method of retirement and redemption is therefore quite as automatic, although somewhat slower in process, than the method of issue. There can be no question but that the mechanism instituted under the Federal Reserve Act to create flexibility of currency expansion and contraction has operated with entire success, and that Federal Reserve notes possess these highly desirable qualities which were lacking in other currency issues of this government, and in national bank notes.

The course of Federal Reserve note issues since late in 1920 has been downward. They reached their peak in November, when the aggregate issue was \$3,349,000,000, and by October 1, 1921, declined to \$2,518,963,000. This recession of \$830,496,000 was as significant of the power of contraction inherent in Federal Reserve notes, as was the earlier rise indicative of their responsiveness to the issue demand.

In due time Federal Reserve Bank notes amounting to \$119,163,000 will be retired. At a later date under provisions of the law, national bank notes (on October 1, 1921, amounting to \$728,314,000) will likewise disappear from circulation. Treasury notes of 1890 are a small factor and their gradual retirement has been provided for by law. There will remain \$341,613,000 of United States notes for which no retirement provision is included in the law, and the gold and silver certificates. It is therefore probable that with the gradual fall in Federal Reserve issues there will also be a gradual drift toward the elimination of competing factors in the circulation, with the ultimate result that Federal Reserve notes will

control and currency will at last be upon a strictly flexible basis and will have the scientific basis which was contemplated in drafting the Federal Reserve Act.

The course of Federal Reserve note circulation in connection with the price movement during 1920 was very interesting. United States wholesale prices, based on the percentage of 1913 average prices,⁵ reached their high point of 264 in May of that year. United States retail prices, based on the percentage of 1914 average prices,⁶ held during June and July, 1920, at their high point of 215. The high point of Federal Reserve issues was reached during the last week of October⁷ and the first week of November, or sixty days later than the peak of retail prices and since that time have steadily declined. The comparative curves tend to prove the accuracy of the view that currency expansion was the product and not the cause of price inflation and that currency contraction (Federal Reserve issues being the only issues having a real flexibility) was the natural product of the downward turn in prices. In paying cash for wheat at country elevators, it obviously takes more currency to buy wheat at the high point of more than three dollars than at the current price of about one dollar. In the agricultural districts the natural result is that member banks will request Federal Reserve notes in larger volumes during periods of rising prices and that their use for currency will fall off sharply on a declining market.

An important element in maintaining the flexibility and responsiveness of Federal Reserve issues to influences that tend to expand or contract them, is the fact that in current rediscounting

⁵ Federal Reserve Board's Price Index.

⁶ United States Bureau of Labor Statistics.

⁷ See Footnote reference on page 178.

operations the larger part of Federal Reserve membership wants credit and not notes. Its demand for notes is wholly the product of local conditions and there is no occasion to request currency shipments unless the local currency supply is insufficient. Credit at the Federal Reserve Bank is more adaptable to its ordinary needs.

It may therefore be said that currency issues from the standpoint of the Federal Reserve Bank occasion practically no concern. They increase or diminish as the fluctuating conditions of each business day may indicate and their connection with such conditions is of the most intimate character. The rise and fall of Federal Reserve issues is so nearly automatic that it requires no extraneous suggestions or encouragement.

CREDIT EXPANSION AND CONTRACTION

The currency provisions of the Federal Reserve Act have proved a distinct achievement in financial legislation. The expansion and contraction of credit is not so simple a problem. In considering it from a Federal Reserve standpoint the membership figures of the System become in some respects more significant than other items of the consolidated bank statement of the country. Less than one-third of the country's banks are in direct contact with the twelve Federal Reserve Banks. Even this one-third may not be assumed to have continuous contact, since even during the recent period of very severe credit strain it has continuously included a substantial non-borrowing element with which the con-

⁷ Trend of Wholesale and Retail Prices and Bills Discounted by Federal Reserve System and Federal Reserve Notes in circulation January, 1920 to September, 1921.

	<i>U. S. Wholesale Prices Per Cent of 1913 Average Price (Federal Reserve Board)</i>	<i>U. S. Retail Prices Per Cent of 1914 Average Price (U. S. Bureau of Labor Statistics)</i>	<i>Bills Discounted By Whole F. R. System on Last Reported Date in Month (000's Omitted)</i>	<i>Federal Reserve Notes in Actual Circulation Whole F. R. System on Last Reported Date in Month (000's Omitted)</i>
<i>1920</i>				
January.....	242		\$2,174,357	\$2,850,944
February.....	242		2,453,511	3,019,984
March.....	248	196	2,449,230	3,048,039
April.....	263	207	2,535,071	3,074,555
May.....	264	211	2,519,431	3,107,021
June.....	258	215	2,431,794	3,116,718
July.....	250	215	2,491,630	3,120,138
August.....	234	203	2,667,127	3,203,637
September.....	226	199	2,704,464	3,279,996
October.....	208	194	2,801,297	3,351,303
November.....	190	189	2,735,400	3,325,538
December.....	171	175	2,719,134	3,344,686
<i>1921</i>				
January.....	163	169	\$2,456,475	\$3,090,748
February.....	154	155	2,396,254	3,051,706
March.....	150	153	2,286,648	2,930,729
April.....	143	149	2,063,739	2,830,118
May.....	142	142	1,870,256	2,734,804
June.....	139	141	1,771,562	2,634,475
July.....	141	145	1,650,496	2,537,617
August.....	143	152	1,491,935	2,481,466
September.....			1,402,903	2,457,196

tact of the Federal Reserve Bank was of a limited and oftentimes of quite an indirect character. In this situation probably lies the seeds of the failure of the theory that a fluctuating rediscount rate is an engine for credit control.

Obviously Federal Reserve rediscount rates can control, if at all, only such banks as pay them, and such banks may not confine their borrowings to the Federal Reserve—in fact they seldom do. The influence of the rediscount rate must be of an indirect, and probably of a very tenuous character as to all non-borrowing banks, member or non-member alike. In most of the Federal Reserve Banks there has been some disappointment at the doubtful effectiveness of the rediscount rate in periods of rapid expansion of credit. To the man whose mind is fastened upon a prospective profit it is altogether improbable that an upward revision of one-half of 1 per cent in a rediscount rate which he does not pay directly, will tend to curb him or moderate his activities. Over the agricultural portion of the United States the bank rate of interest is as near to a stable rate as any example that the United States affords. In developed agricultural sections the tendency of the bank rate is to remain at practically the same level throughout the year, and, for that matter, over a period of years. The same tendency is noticeable in the less developed agricultural sections, although the rate levels are higher, and even where bank rates reach their highest levels the rate itself is subject to comparatively little change.

Where there are surplus capital and funds for investment, it is natural that the importance of agriculture should be recognized and that ample funds should translate themselves into fairly stable and relatively low rates to agricultural borrowers. The reverse, how-

ever, is not true. In the partially developed sections of the West it has been the habitual practice to attract outside funds by offering attractive rates on time deposits, which, once established, have automatically forced up the loan rate of the bank to its customers. Rates on time money change very little in western United States and they, more than any other factor, dominate and control the rate which must be charged to the borrower if the bank is to make a profit.

It would appear that the only points where the interest rate shows a proper responsiveness to the rise and fall of free funds is at the commercial centers or in the sections which have attained their development. In the very large western areas it has been noticeably true that the rate to the farmer and stock raiser has changed but little throughout the entire war period including the last twenty-two months of very severe strain on credit. This applies particularly to the best names. The availability of credit fluctuates more than the rate. Such a condition has not prevailed at the centers where the rate even to the best names has fluctuated in accordance with a changing money market. These were conditions which the Federal Reserve Banks were not called upon to encounter until after the war period of artificial prosperity had largely spent itself. It then became apparent that they entailed very serious problems, the gravest of which did not develop until the sharp fall in prices began to cause cancellations and extraordinary inventory losses, and to impair the credit standing of many responsible firms. In the stock-growing districts the market for wool collapsed. Live stock prices receded sharply. In the agricultural sections farmers who anticipated a continuance of the extremely profitable price levels saw corn drop to

a point where it was more profitable to burn it than buy coal; and wheat went down to a third of its high war price.

RESERVE BANK POLICY DURING BUSINESS CONTRACTION

If every merchant and farmer caught in the jaws of this distressing situation had been improvident, lacking in foresight and not entitled to bank support and bank credit, the problem might have been easier. It would then have been simple to say that Mr. Smith and Mr. Jones had reaped the fruits of their own errors and to have permitted them to take the usual course through bankruptcy. The conditions, however, were somewhat different. While a certain amount of recklessness, extravagance and failure to consider the future, doubtless existed, price changes were so radical as suddenly to cripple and often seriously to embarrass, entirely worthy and reputable commercial, industrial and agricultural interests. It was necessary in such cases that the banks show no hesitancy in supporting every worthy borrower to the full extent of their power.

It is an interesting fact that this power to help was, to an extraordinary extent, based upon the power of the Federal Reserve System to extend credit. Access to the Federal Reserve Banks was a right enjoyed, under specific provisions of the law, by every member bank. There was, however, no legal bar to loans by city correspondents to non-member country banks, and the immediate result was that the very heavy rediscounting of banks at the centers was translated into equally heavy loans to non-member institutions at widely scattered points, irrespective of the provision of the Federal Reserve Act that denies the use of the credit facilities of the Federal Reserve System to non-members. There is no question but that

the financial and business judgment of the country will strongly support the policies pursued by the Federal Reserve Banks when they are properly understood. A narrow or hidebound interpretation of the law, irrespective of the very great physical difficulties which must be encountered in any effort to trace the movement of the proceeds of rediscounts through a large city institution, would immediately have meant the failure of many hundreds of state institutions, a large proportion of which were, under the Federal Reserve Act, ineligible for membership because of insufficient capital. The strain upon the Federal Reserve System was severe enough and there could have been no justification for inviting the crisis which would have been precipitated had the very numerous non-member banks lacked a place to go to borrow.

What happened during the year ending April 28, 1921, is very interestingly shown in a chart prepared under the direction of Mr. Benjamin Strong, Governor of the Federal Reserve Bank of New York. Classifying all the members in the Federal Reserve System by their location in agricultural, semi-agricultural, and non-agricultural counties, we find that during this period the aggregate deposits of banks in non-agricultural counties fell off 4 per cent. In semi-agricultural counties the decrease was 5 per cent; but in the agricultural counties the decrease was 11 per cent. As to their aggregate loans, the decrease in non-agricultural counties was 6 per cent, and in semi-agricultural and wholly agricultural counties the decrease was in each case, 1 per cent. In their aggregate borrowings from Federal Reserve banks, non-agricultural counties fell off 29 per cent, while semi-agricultural counties receded only 2 per cent and wholly agricultural counties increased their borrowings 57 per cent. In aggregate

borrowings from other sources than the Federal Reserve System, the non-agricultural counties increased 1 per cent; the semi-agricultural counties, 19 per cent and the agricultural counties, 66 per cent. It therefore appears that agriculture, in which is included live stock, drew down its deposits, failed to decrease its loans, and in both cases made extraordinary increases in its borrowings.

A situation such as this was sure to produce peculiar problems in a Federal Reserve Bank. Let us suppose that in one of these agricultural sections a member bank had already increased its loans and discounts to the limit of safety while carrying reasonable rediscounts with its Federal Reserve Bank and substantial bills payable with correspondents. The long delayed liquidation in its territory fails to develop. Its farmer customers, perhaps five or six hundred in number, are man and man alike obliged to pay their debts contracted on a basis of high wheat and high corn, with wheat and corn having an abnormally shrunken market. Obviously the bank would fail in its responsibility to its community if it arbitrarily refused loans and forced payment. The facts were that in very numerous cases the enforcement of payment was practically an impossibility, since the crops lacked liquidating power. The Federal Reserve Bank's problem, therefore, became broader than that of the bank itself. It became a problem of carrying through the farmers or business men until they could again find a safe footing.

In some sections of the West it was necessary to continue this policy through four successive failures of the crop. The bank's alternative was to loan the minimum that was necessary to enable its customers to weather the storm or encounter a prompt insol-

venency. Within a very brief period fifty-three banks in a certain western state, and numerous banks in the South and in other portions of the country, mainly in districts that are agricultural, went to the wall. In such an emergency it is fruitless to rely upon the fluctuations of a discount rate. An increase of 1 per cent would not deter a bank in very grave difficulties from presenting eligible paper for rediscount at a Federal Reserve Bank. There can be no question of the legal right of a member in the Federal Reserve System to present eligible paper for rediscount. Upon the presentation of such paper the problem becomes one for the executive committee and executive officers to solve. They must determine whether in view of all the facts and circumstances the rediscount of particular applications is justifiable. I have indicated that during the recent abnormal period the justification of rediscount did not necessarily depend wholly upon the credit standing of the applicant or upon the character of the paper presented. Because of these conditions, which nullify the effect of discount rate changes, it is frequently necessary to carry a bank beyond what would ordinarily be considered safe or prudent limits in order to protect its depositors and its community and maintain the stability of the general banking situation. This has been particularly true where loans were "frozen" and slow rather than doubtful.

With a clean and reputable member under capable management in acute distress and faced with the alternative of obtaining additional assistance or closing its doors, there can be no question as to what the policy of the Federal Reserve Bank should be. It is better to save the reputable banks, assist their worthy customers, whether business men or farmers, to weather the storm, and hope for rehabilitation later, than

to take a narrow view and force the bank to the wall, unsettle public confidence and perhaps precipitate again such conditions as were a quite familiar experience prior to the establishment of the Federal Reserve System.

THE REDISCOUNT RATE AS CREDIT REGULATOR

Any discussion of credit control at the present time is necessarily colored by recent experiences and may perhaps have a less practical value because of the abnormal nature of the period from the beginning of 1920 down to date. Such a period does, however, carry its own lessons. One of the most important is that dependence upon the discount rate is a fallacy until the discount rate can be made generally applicable to the borrowings of all banking institutions in the country. Pending such development the real control of credit in the Federal Reserve System will lie not in the rate but in the accuracy and precision of judgment of the boards of directors, executive committees and executive officers in each of the Federal Reserve Banks, with the able leadership and excellent advice which they have unfailingly received from the Federal Reserve Board.

To the borrowing individual or borrowing bank, such strain and emergency destroy the effectiveness of control through the rediscount rate. The question then becomes one of expediency and safety and not one involving scientific application of a theory, which, while it works well in smaller and better developed nations, will have a doubtful practicability in the United States until it reaches equal development and has an equally well-knit population, properly seasoned by precedent, custom and established rule.

On the other hand, it cannot be doubted that the existence of a discount rate has been an influence of ex-

ceptional value. Some of the critics of its result in operation have apparently overlooked the fact that the Federal Reserve System during the period of the War was necessarily dominated by Treasury policies, and that it did not have an opportunity to work out a discount rate policy of its own. Within a very recent period a certain group of eastern banks encountering relatively the same conditions have gone to a flat $4\frac{1}{2}$ per cent basis. A second group of banks, between the better developed East and the partially developed West, but having much the same problems to meet, have adopted a 5 per cent basis. The remaining banks in the undeveloped sections have gone to a $5\frac{1}{2}$ per cent basis. We have therefore in the Federal Reserve System, for the first time, what is practically a uniform policy in the fixing of rediscount rates, and the new rates are as uniform as may be as to the districts where conditions are similar.

Under normal conditions there should be a differential between the developed East and the undeveloped West. Such a differential cannot always exist because it will be affected temporarily by stress and unusual developments in the money market. It has the merit of affording guideposts by which the 30,000 banks in the United States may judge country-wide credit conditions, and while their freedom and independence in making rates to their customers is in no wise impaired, it will unquestionably prove that Federal Reserve discount rates which maintain the proper relation between the different areas of the United States and which keep reasonably in line with their upward or downward movement, will have a very material indirect influence. They will probably tend in the long run to equalize bank rates in sections where conditions are similar and to prevent abnormal differ-

ences in the customers' rate in different sections of the country.

From a practical standpoint the control of credit is largely a matter of leadership and example. It is becoming clear that each rediscount application in a Federal Reserve Bank must receive a high degree of individual study and that there must be devoted to it a specialized judgment which takes full cognizance of all the facts surrounding it. In western Reserve Banks, at least, it is improbable that the conditions of any two borrowing banks will prove to be exactly parallel. These differences must be recognized and as they develop they call for keen banking judgment rather than the application of a rule. In the last analysis the control of credit through the Federal Reserve System is, therefore, a matter for the executive officers and executive committee in each individual case. They must set up their own policies, form their own judgments, and endeavor to hold all applications from borrowers to proper standards, which if they are to be valuable must not be inflexible. From an intimate viewpoint it is clear that the success

the Federal Reserve Banks have had in enabling this country to avoid disaster, while not complete, was still extraordinary and that it had its foundations not in any question of rate control but in the application of shrewd and precise judgment to many thousands of separate and distinct problems.

In checking expansion, the promptness and courage of the Federal Reserve Banks in taking a stiff stand against inflation is likely to prove more efficacious than any decision to advance the rate, although both actions must go hand in hand. In reality it might be said that an advancing or receding discount rate is of material advantage as a warning signal but that the practical work of the Federal Reserve Bank is in its executive committee and that the degree of control which it exercises, which is necessarily limited by the insufficiency of its membership, will be proportionate to the farsighted vision and courage of the Federal Reserve Board, which supervises, and the executive control in each Federal Reserve Bank, to which each problem must ultimately come for settlement.

Principles Governing the Discount Rate¹

By W. P. G. HARDING

Governor of the Federal Reserve Board

CONTROL over discount rates, as exercised by the Federal Reserve Banks and the Federal Reserve Board, is one of the most important and far-

reaching powers ever delegated by Congress to another instrumentality. The grant ranks with the power given the Interstate Commerce Commission to regulate railroad rates. While it is necessary that powers of this kind should be vested in a few hands, they should be used with discretion and the effect of a change in rate should be carefully considered before the change is made.

The principle is well established that in theory the Federal Reserve

¹ Remarks at the opening session of the joint conference of the Federal Reserve Board with the Federal Reserve Agents and Governors of Federal Reserve Banks held at Washington, D. C., October 25-28, 1921.

Because of his official position, Governor Harding did not feel at liberty to express a personal opinion. In this paper, however, he states the problem as it has been brought before Federal Reserve authorities.

Bank discount rate should be slightly in excess of current rates. There has been much discussion of the reductions which have been made in discount rates during the last six months and, disregarding the opinions of the prejudiced and the uninformed let us consider the conflicting views of some whose opinions are worthy of attention and respect.²

VIEWS ON REDISCOUNT RATES

A New York banker and an eastern economist expressed themselves as follows:

The basic idea in this policy of keeping the rediscount rate above the market is that Reserve Bank money is for exceptional and unusual use—that it is not the province of a Reserve Bank to supply a substantial part of the ordinary funds employed in the market in ordinary times. Of course, it is expected that a Reserve Bank shall make money for its stockholders and shall employ such of its funds as may be necessary to meet expenses and to pay dividends. One provision of the Federal Reserve Act, permitting open market operations on the part of the Federal Reserve Banks, was designed to give them discretion in this matter, whether the member banks should rediscount with them or not. But the position of a Reserve Bank is a very peculiar one. If an ordinary bank makes a loan, checks come in against it, as a consequence of the loan, which it must meet out of its reserve unless it should happen that, simultaneously, new deposits are made with it of checks drawn on other banks. Loans made by a Reserve Bank, however, need not lead to drains on its reserve. When, in making a loan, it issues its notes or gives a deposit credit to a rediscounting bank, that note or a transfer of that deposit credit will be accepted as ultimate payment by some other institution. The deposit liabilities of the Reserve Bank count as ultimate reserve for the other banks of the country,

and the volume of reserve money is consequently increased through a mere increase in the deposit liabilities of the Reserve Bank. With an increase in the volume of reserves of the member banks, there is an immediate tendency to a reduction in the general level of discount rates throughout the country, placing them below the level which open market conditions would otherwise call for and creating a temptation for the uneconomical use of bank funds. There is particularly a temptation to use bank funds in an excessive degree for capital purposes, and for the ordinary banks of the country, misled by the artificial excess of liquid cash, to tie up too great a part of their assets in non-liquid form. The Reserve Bank which makes rediscount rates too low, therefore, instead of performing its function of increasing the liquidity of the banking system, tends rather to destroy liquidity.

A Chicago banker reiterates the opinion, expressed by him several times, that the Federal Reserve Banks and the Federal Reserve Board ought to proceed very slowly in lowering the present rates. He anticipates that there is considerable danger, in case the rates are lowered precipitately, of a renewed inflation, with a consequent reaction more violent than that through which we are now passing. He takes the view that, in general, it is a complete mistake to have the rediscount rates lower than the prevailing market rates for commercial loans, for if banks are enabled to rediscount their paper at a lower rate than they themselves receive, obviously a continued inflation is profitable to them. His opinion coincides with the views of the eastern banker and the economist above quoted, and he stresses the point that our large gold reserve is, after all, due only to the fact that gold is not being circulated at the present moment and that much of this gold is likely to flow out of the country as soon as there is a change in the bal-

² The quotations which follow are from a symposium recently published in a financial journal.

ances of trade. He concurs, also, in the view that a certain amount of the gold which the Federal Reserve Banks have at present is, in a sense, merely held in trust for Europe. He regards as entirely fallacious the argument made by adherents of a policy of lowering rediscount rates that such action is desirable because the reserve ratio and gold accumulations of the Federal Reserve Banks justify a relaxation of the official rates.

A Milwaukee banker who contends that the policy should be in accord with the money market tendency, states:

The main point made by those opposed to the lowering of Federal Reserve discount rates is that the rediscount rate should always be above the market rate. This is laid down as a general principle to which there are no exceptions. Federal Reserve funds are only emergency funds, it is said, and it should not be possible for banks to make a profit by rediscounting at a lower rate than the market.

When the demand for credit is excessive and increasing, the Reserve Banks should move into a dominating position by raising their rates above the market rates for money. But the same necessity for discouraging resort to Federal Reserve Banks does not exist when the demand for credit slows down, loans are being paid off and reserves are accumulating. What has happened as a result of the recent lowering of rediscount rates? Has it resulted in an expansion of loans or reflation? Not at all. On the other hand, the published records show that member banks have continued to reduce their rediscounts and borrowings and to do this have brought pressure upon their customers to liquidate. Customers who have voluntarily liquidated and got themselves back into good financial condition are offered lower rates on new loans. This, of course, is an incentive to those who have not done so to liquidate. This is the practical way in which the leadership of the Federal Reserve Banks in reducing their rates has worked. There has not been the slightest

tendency toward renewed inflation. Rather the tendency has been to further liquidation. . . . The general principle of keeping Federal Reserve rediscount rates above the market rate for money is sound, but it does admit of exceptions as in the present condition of things. The present Federal Reserve policy is in accord with the tendency of the money market and it is hard to see how it has had, or will have, any but a wholesome and constructive effect.

In a recent publication a well-known banker and economist has asserted that the best index of the money market in this country is the rate on line-of-credit loans to borrowers from two or more banks, and not the rate on bank acceptances, as in England. The volume of line-of-credit loans in this country is far larger than the volume of bank acceptance credits, but it may be doubted whether the rates on such loans are as competitive as bank acceptance rates. Bank acceptance rates are fixed in the open market and are published. Line-of-credit loans have no open market and there are no published rates. Line-of-credit loans are not as competitive as they may seem. A small firm commonly maintains a line of credit only at its own bank. Large corporations usually have lines of credit not only with their home banks but with large banks in financial centers, not necessarily because they can secure lower rates, but because no one bank wants to take care of their full needs. For these reasons it is to be doubted whether line-of-credit loans afford as good an index of money market tendencies as the bank acceptance rates. The latter represent the minimum rates for the best class of paper and, because this is so, they indicate far beyond their actual money volume the drift of the market. The present rate on eligible bank acceptances of $5\frac{1}{8}$ to 5 per cent is a better indication of what is taking place and what may be expected in the open money market than rates on line-of-credit loans which reflect market condition more slowly.

Another Chicago banker takes an extremely conservative view. He would like to see many of the so-called "war amendments" to the Federal

Reserve Act repealed and states that as the law stands, "nothing but the courage and wisdom of the management prevents it from becoming a disastrous engine of inflation." He objects particularly to the amendment which forces member banks to carry their entire lawful reserves in the form of collected balances with the Federal Reserve Banks and believes that this amendment, which he regards as practically demonetizing gold, is most dangerous in normal times. Referring to the complaints which have been made that the agricultural districts have been discriminated against, he believes that exactly the opposite is the case and appears to believe, also, that the Federal Reserve System has worked a great injury to the country as well as inestimable benefits. He states:

In a time of inflation such as we had a year ago, it nullifies the operation of the usual normal remedies for such conditions. If it had not been for the Federal Reserve Banks, farmers generally would have been compelled to sell their crops a year ago and pay their debts. This would have saved them and the country from the disaster that has overtaken them. Also, had it not been for the Federal Reserve Banks, manufacturers and merchants would have been unable to accumulate or carry the heavy inventories entailing losses in a single year which it will take a generation to replace.

The solution to this is to keep the Federal Reserve discount rates above current market rates, so that there will be no temptation on the part of the member banks to profiteer through the Federal Reserve Banks. So long as the Federal Reserve rates are kept below current rates, there is, in my judgment, no way in which this kind of inflation can be prevented. On the other hand, if borrowers compel their banks to rediscount in order to enable them to carry crops or goods for higher prices, they are put on notice that they are acting against the general judg-

ment. In normal times member banks should understand that they are not expected to borrow except to meet emergencies, and they should be made to feel that borrowing at such times is an indication of weakness and needs explanation.

He expresses the hope that the Federal Reserve Board will make a public statement of what its future policy will be regarding rates and expresses the belief that the confidence of the country in the Board is such that any clear statement of fundamental principles made by it would be acquiesced in.

Another New York banker while convinced that under normal conditions it is logical that the Federal Reserve rate should be higher than the prevailing commercial rate, believes that in view of the world-wide conditions that exist today, the adoption, at this time, of artificial means to accelerate the process of readjustment would be a dangerous course to pursue. He states:

Considering the extent to which credit for speculative purposes has been liquidated, and also taking into consideration the present reserve and gold position of the Reserve Banks, it would seem that the reduction in rate is fully justified. Furthermore, I do not believe the reduction at this time in the rate will appreciably encourage a tendency toward renewed credit inflation. The question of rates has, on the whole, been ably and courageously handled by the Federal Reserve Banks and the Federal Reserve Board.

He says that if he were to offer a critical observation, it would be to remark upon the "salutary modification of the need for deflation that would have resulted had the high rates been put into effect in the spring of 1919 instead of the summer of 1920."

A Boston banker takes the view that the Federal Reserve System was

organized for the purpose of furnishing credit, by means of rediscounting, to the commercial banks of the country. He says:

In a general way the time when this credit is needed is just before, during and immediately after, a credit crisis, or credit pinch, and it seems clear that at such time the rate charged for rediscounting should be at about the current market rate charged by the commercial banks to their customers. To make the rate higher than the prevailing rate would tend to restrict the granting of necessary credits to merchants and similar borrowers. To make the rediscount rate much lower than the prevailing rate would tend to encourage over-lending by the commercial banks. In fixing the rediscount rates, the managers of the Federal Reserve Banks should try, as far as possible, to keep their minds free from influences other than those which directly concern the prevailing rates of money, but they certainly are justified, when fixing rediscount rate, in being influenced by motives of the safety of the Federal Reserve Banks themselves, and when the rediscounts appear to be approaching a dangerous total, they should use their rate-fixing power to check speculation and to prevent any possible danger to the Federal Reserve Banks, which are the foundation of our whole banking system. It was never intended, and never should be intended, that the Federal Reserve Banks consciously use their power and authority either to encourage or to discourage business. Their chief purpose should be to assist commercial banks and to fix the rates of rediscount so as to best accomplish this, and at the same time to protect their own position from any possible overstrain.

He regards as one of the greatest dangers to which the Federal Reserve System can be subjected, the attacks and manoeuvrings of politicians to make the System serve political ends.

Another leading banker does not believe that the time has yet arrived when discount rates should be held up

to a point above the rates for commercial paper because the conditions of business are not yet on a normal basis. He says that it has been the habit of commercial bankers to argue with their commercial customers that the rate to their customers is based on the Federal Reserve Bank discount rate and that it should be enough higher than the discount rate so that there would be a profit to the banker between the discount rate and his rate to his customers. He says further:

There is yet in our banks a large amount of so-called frozen loans which may be described as loans which are probably good but which the borrowers are not in a position to pay off at the present time. Therefore, they are not in a position to trade on market rates on an even basis with the banker. Under these conditions, a high discount rate of the Federal Reserve Banks simply has helped the commercial banker to get higher rates from his customers than are justified by the conditions of credit. Therefore, it was desirable and necessary for the Federal Reserve Banks to reduce their discount rates from 6 or 7 per cent to $5\frac{1}{2}$ per cent. in order to inform the commercial community that the credit situation no longer demanded these high rates.

He takes the view that "Federal Reserve Bank discount rates should not be made with the idea of controlling business or market prices of commodities," but that "they should be indications of the effect that the present business is having on the supply of credit and of anticipated conditions that will affect the supply of credit in the near future." He believes that "when the business community has become trained to the point of watching the reserve position and discount rates of the Federal Reserve Banks and has come to an understanding of what these figures mean, it will be helped very much

by studying the published conditions of the Federal Reserve Banks and will appreciate what a change in discount rates means, provided of course that the officers and directors of the Federal Reserve Banks are not hampered in using their judgment in these matters by outside influences."

A Chicago merchant notes the difference of opinion among experts as to the proper time for raising or lowering the Federal Reserve rediscount rates. He points out that neither the Federal Reserve System nor any part of it can be run on any formula, and that if it could, very little brains would be required for that part after the formula had been found. He believes:

If we are to be a world power in commerce, as we may be, we shall have to make the New York, or some other district rate attractive for the discount of the world's import and export bills. We might, of course, be above the English rate for a short time, for adjustment or other purposes, but if we make a rule to have the rate always above the commercial paper rate in New York, our ambition to be the world's bankers, or to compete with England in commerce and finance, will vanish into thin air.

He takes the view that in crises and extraordinary emergencies a Reserve Bank may well be justified in violating temporarily the ordinary canons of sound finance, but emphasizes the fact that under normal conditions and under conditions when it is possible to take a long-run view, the well established traditions covering a Reserve Bank's operations must be followed. The chief of these canons is that the rediscount rate of Reserve Banks should be kept above the market.

RECOMMENDATION OF ADVISORY COUNCIL

The Federal Advisory Council, at its last meeting on September 20, 1921, expressed its belief that rates should

bear a direct relation to a Federal Reserve Bank's reserve and to the general money market, and that, in addition, consideration should be given to the items enumerated in the Council's recommendation of May 17, 1921, as follows:

1. The reserves of the Federal Reserve System as a whole.
2. The reserve position of the Federal Reserve Bank whose rate it is contemplated to change.
3. The condition of all the banks of the country as a whole, and of the several Federal Reserve districts.
4. The economic and financial condition of this country.
5. World conditions, both economic and political.
6. The eventual establishment of a credit rate policy for the Federal Reserve Banks by which the rediscount rate to member banks is higher than the prevailing commercial rate, taking due consideration of the prevailing open-market rates for various classes of loans both in this country and abroad.
7. Uniformity of rates, while at times practicable and desirable, should not be adopted as a fixed policy, the System being predicated upon the principle that varying conditions might exist in different sections of the country.

With reference to the general money market, the following factors were suggested by the Board as those which should be considered in arriving at a conclusion as to what is the current rate for money:

1. Rates charged by banks to their regular customers.
2. Rates for one-name paper bought through note brokers.
3. Open market rates on bankers' acceptances.
4. Rates on Treasury certificates.

The Board asked the Council for its views as to the relative importance of each of these factors and the Council expressed the view that all four items

mentioned are important in determining the money market but there may be other factors which should likewise be given consideration, such as general business conditions and the reserve position of a Federal Reserve Bank. It was the view of the Council that the ruling rate for money in a district will adjust itself automatically to these conditions. The Council expressed the view, also, that a Federal Reserve Bank while it is borrowing should not lower its rate, but stated that special conditions might exist in a district which would make a reduction desirable and would justify such a course.

REDISCOUNT PROBLEM CONFRONTING THE BOARD

It seems clear to the Board that it is not practicable in this country for Federal Reserve Banks to maintain rates of discount higher than current market rates if line-of-credit loans are to be accepted as the criterion. The rates of interest permitted in many states are so high as to preclude this as a possibility. In ordinary circumstances when the credit risk is at a minimum the rates paid for high grade commercial paper sold in the open market may be regarded as a measure of the market rate for money, but it is evident that at present there is much consideration to be given to the basis on which short time obligations of the Treasury are sold and to market rates for prime bankers' acceptances. The problem, therefore, is more simple at this time in districts like New York, Chicago and Philadelphia, where the Federal Reserve

cities are dominant in their districts; but in other districts which cover a larger territory and where the business is more distributed and diversified, the problem is more difficult. At the present time, four Federal Reserve Banks are rediscounting about \$45,000,000 with three other Federal Reserve Banks. The directors of one of these borrowing banks more than a month ago voted to reduce their discount rate from 6 per cent to $5\frac{1}{2}$ per cent on all classes of paper, but the Federal Reserve Board has not yet approved the reduction. No evidence has been presented to show that current rates for bank accommodations are less than the Federal Reserve Bank rate, or that current rates would be reduced by lowering the Reserve Bank rate, but the directors argue that the consolidated reserve position of the System justifies a lower rate.

The Board has been inclined to the view that the reserve percentage of each Federal Reserve Bank, as well as that of the System, should be taken into consideration as one of the determining factors in fixing the discount rate. If the Federal Reserve Bank of Chicago, with a reserve of around 70 per cent and the Federal Reserve Bank of St. Louis, with a reserve of 63 per cent do not feel justified in reducing their discount rates below the present level of 6 per cent, what argument is there for a borrowing bank, like Atlanta, having a reserve without rediscounts of only 32 per cent, to have a $5\frac{1}{2}$ per cent rate? On the other hand, what are the arguments against a reduction in districts which have so high a percentage of reserve?

Rediscount Rates, Bank Rates and Business Activity

By GEORGE M. REYNOLDS

Chairman of the Board, Continental and Commercial National Bank of Chicago

THE problem of greatest interest and importance now confronting the Federal Reserve Banks, the commercial banks and the business world, is the rediscount rate and its effect on or relation to business activity.

The simple answer to the question whether the rediscount rate of the Reserve Banks should be higher or lower than the rate charged by commercial banks—whether this means the line-of-credit rate, over-the-counter rate or commercial paper rate is not clearly defined—is that the rediscount rate should be higher.

This answer seems to flow readily from British practice and recent American experience. But the economic situation, at home and abroad, is not so simple as to permit this offhand and categorical answer. American experience under the Reserve System has not been sufficient for the dogmatic statement of a formula for the future. The Reserve System has not functioned to any extent under conditions it was designed to meet; it has faced chiefly the very unusual conditions which attended the prosecution of war and the uncertainties and abnormalities that followed. At this time it seems impossible to do much more than state the problem as it is made out of and affected by a great variety of elements. The ascertainment of these elements involves investigation of business customs, bank habits, government operations and, perhaps, the psychological influence of public sentiment.

It is hardly possible to base any rule of future action in regard to rediscount rates on experience as gained by the Bank of England. Conditions in

England and America are so different that the British rule as to the bank rate contains little of value except for suggestion, and even this little decreases as the banking and commercial paper customs of the two countries are contrasted. In the United States, for instance, the Reserve Banks have no direct relations with the public and receive deposits only from banks and the government. In this country the "open market" has few points in common with the English bill market. In the United States there are over 30,000 independent banks scattered through a vast territory whose activities are tremendously varied, instead of a few banks with thousands of branches serving a country of high industrial and commercial development.

The view is often expressed that the rediscount rate should be invariably higher than the market rate—usually meaning the prevailing rate for commercial paper—because the Reserve Banks are, after all, *reserve* banks and should be called on for rediscounts only when the bank desiring to borrow is under strain. There can be no disagreement about the desirability of the increase in rediscount rates when business expansion needs to be checked, and there may be reason for keeping them regularly higher than the market rate. It must not be forgotten that, whatever the Reserve Banks may be in law, in fact, they are regarded no less by bankers than by business men and the public as a kind of financial hospital to which all classes may go to have their wounds treated, regardless of the causes of the wounds. The banker, and the business man through his banker, wishes the same treatment whether he

has been hurt through his own derelictions or through a conjunction of economic causes, unforeseeable and uncontrollable. But the determination of a rediscount policy for the future calls for close analysis.

INFLUENCES THAT HAVE AFFECTED REDISCOUNT RATES

Since the depression following the War the factors influencing rediscount rates have been given serious consideration. At its meeting in September, 1921, the Federal Advisory Council expressed the view that rediscount rates should bear a direct relation to a Federal Reserve Bank's reserve and to the general money market, and that, in addition, consideration should be given to the items enumerated in the Council's recommendation of May 17, 1921, as follows:

1. The reserves of the Federal Reserve System as a whole.
2. The reserve position of the Federal Reserve Bank whose rate it is contemplated to change.
3. The condition of all the banks of the country as a whole, and of the several Federal Reserve districts.
4. The economic and financial condition of the country.
5. World conditions, both economic and political.
6. The eventual establishment of a credit rate policy for the Federal Reserve Banks by which the rediscount rate to member banks is higher than the prevailing commercial rate, taking due consideration of the prevailing open-market rates for various classes of loans both in this country and abroad.
7. Uniformity of rates, while at times practicable and desirable, should not be adopted as a fixed policy, the System being predicated upon the principle that varying conditions might exist in different sections of the country.

It was further suggested that with reference to the general money market

the following factors should be considered in arriving at a conclusion as to what is the current rate for money:

1. Rates charged by banks to their general customers.
2. Rates for one-name paper bought through note brokers.
3. Open-market rates on bankers' acceptances.
4. Rates on Treasury certificates.

This series of rules is apparently given potentially. What have been the determining factors in fixing rediscount rates heretofore seem nowhere to have been given in a similar summation. In the first year or two of the Reserve Banks' operations little attention was given to the rediscount rate. Money was plentiful and there was little rediscounting. The War and its demands brought a change. It is no secret that government financing took precedence over everything else. The rediscount rate, regardless of any influence it might have on business, was adjusted so that the purchasers or holders of war bonds would receive preferential treatment. Otherwise, it is doubtful, with adherence to the Reserve Banks as the instruments whereby credit was to be made available for war purposes, if the war bonds could have been successfully sold at the rates they bore. It was when this need became apparent that the rate was placed at a low point. Business was, of course, a beneficiary. There was no departure from this policy during the War nor, as is often pointed out, until some time after the Armistice.

On pages 62 and 63 of the hearings entitled "Reviving the Activities of the War Finance Corporation," will be found the following by Governor Harding:

The Federal Reserve Board adopted a policy in order to assist in the war financing

which was economically unsound. I say this frankly. Congress authorized certain loans. It authorized the Secretary of the Treasury to determine the rates at which the loans should be issued. The Secretary of the Treasury asked the advice of experts and then fixed the rates of interest to be borne by the several issues of bonds, notes, and certificates. During the time we were actually at war, something like \$18,000,000,000 of bonds were sold to the people, an amount certainly in excess of the normal investment power of the American people in such a short time, and the only way in which those loans could be financed was through the instrumentality of the banks. The only way the banks could undertake to do it was to get some assistance from the Federal Reserve Banks and at a low rate. The low rate of interest borne by these bonds was fixed with a view of holding down the expenses of the government as far as possible. Anyway, that is something the Federal Reserve Board has no responsibility for. In order to make possible the floating of these bonds we fixed a rate less than their coupon rate. Some member banks announced that for a period of six months there would be a rate of $4\frac{1}{4}$ per cent on notes secured by government obligations. The result was that there was no loss to subscribing banks pending the distribution of the bonds to the public. There were successive bond issues. The principal reason why discount rates were not increased earlier than they were in 1919 was on account of Treasury financing.

Thus it appears that government financing and the desire to have war bonds bear low rates of interest were the determining factors until disaster was scented in 1919. Then present and impending troubles dictated the increase of rates, which was belated. It was some time before this increase that liquidation began. It was a considerable time afterward that deflation became a visible reality. It may be said only with diffidence that the increased rates had anything more than a moral effect. Members of the Reserve Board said repeatedly, and

cited figures to show, that the peak of credit and currency expansion was reached some months after higher rates were made effective. This indicates either that business had such an impetus that rediscount rates had no effect in stopping it, or, if they had any effect, considerable time was required to make it apparent. If this experience is to be taken as a demonstration of the efficiency of an increased rediscount rate to stay business activity, it must also be taken as a first indication of the time relation between an advance or change of rate and business operations.

But whether the high rediscount rate did or did not halt business and force deflation and liquidation, or whether business toppled over for other reasons, there is no doubt that it toppled. Gradually the credit situation cleared and is still clearing. Coincident therewith further study of the rediscount rate and its influence and effect began. As the reserve percentages of the Reserve Banks began to mount, the demand for lowering of the rates became more and more insistent. The increase of reserves was not, however, due entirely to liquidation. The flow of gold from abroad was steady, and became a very important, if not the most important, factor in building reserves up to a high point. It must also be noted that the rates charged by commercial banks did not go down either simultaneously with those of the Reserve Banks, or proportionately to them. Commercial banks were affected only indirectly by the great inflow of gold. It required liquidation by business to permit them to build up their reserves and pay off their debts to the Reserve Banks.

This would seem to show that rediscount rates were fixed with no consideration of the rates charged by the commercial banks. The assump-

tion of a causal relationship between the two, therefore, remains to be proved by the presentation of evidence that the experiences of the past two years does not offer.

THE TIME RELATIONSHIP BETWEEN BUSINESS COMMITMENTS AND BORROWING.

If no relationship, or one that is indirect or nebulous, exists between rediscount rates and commercial bank rates, it becomes apparent that there can be no relationship, or, at least only a very remote one, between rediscount rates and business activity; it is the commercial bank rate that business pays, not the rediscount rate.

For present purposes, then, the question may be stripped down to the time relationship between the rediscount rate and the commercial bank rate, between the commercial bank rate and business activity, and then between the rediscount rate and the latter. For the present, also, it will be necessary to ignore the manifest influence of remote and indirect causes. In a business scheme so intricate as that of the world today, it would be hazardous to be dogmatic about such relationships. The problem is, however, to determine, if possible, the more immediate relationships—the causes which act and react on one another so as to permit the application of direct evidence. It is pertinent here to note, for instance, that there are some thousands of banks which are not members of the Reserve System; that each operating bank is an independent entity, subscribing to no rules as to interest charges and often getting "all the traffic will bear"; that loan risks vary with classes of business and in different districts, and that the demand for capital forces new and undeveloped sections to bid high in order to attract funds. It is

probably only in the large centers and well developed industrial districts that money rates are subject to the controlling influence of reserve condition, supply and demand, gold imports, etc.

To get at the time relationship between business activity and borrowing, it is permissible to take for example the customary operations of a merchant or manufacturer. It is common knowledge that his interest in the present state of all business and of his own business is shared with his concern for what the future holds. He plans and manufactures and buys for a coming season. No matter how active present operations, the future concerns him as much. He may or may not sound out his banker as to his coming financial needs. Whether he does or not, he makes contracts and commitments for a coming season. If the banker has committed himself in such cases, he will to some extent have foreknowledge of the demand to be made upon him. But often, if not usually, he may be wholly unaware of what his customer contemplates. Business men will not arrange in advance for credit unless they foresee the impossibility of meeting their obligations out of current resources. If they have a line of credit, they will not indicate their intention to use it at a particular time or during a particular season unless it promises to be insufficient for their prospective needs. Nor will the member bank signify its intention to rediscount in the future.

In such circumstances the business world, each unit operating by itself, may be building the foundation of a credit structure in the autumn; the commercial banks may not be called on for loans until spring and it may be midsummer before the contracts and commitments made months before are reflected by a demand for rediscounts at the Federal Reserve Banks. How

is a rediscount rate going to meet an over-extended condition, in the summer, which was produced by operations begun and completed many months before?

Commercial bank officials and those of Reserve Banks, also, study business conditions constantly. Many of them have information and statistical organizations. They gather the best statistical evidence they can, but the Reserve Bank officers have no privy of interest and no intimacy of relationship with business men. Even with superior advantages in this respect, officers of member banks cannot anticipate conditions except in a very general way. One banker might be alarmed at the prospect of a large demand for loans and his competing neighbor have no evidence of such impending events at all.

It is such conditions that call into play the highest banking skill and judgment. Such conditions demand of the banker a prescience which can come only from such a familiarity with business that he feels rather than knows what is before him. In making his half-intuitional estimates he will, of course, take account of the fact that the Reserve Bank is ready at hand if there is need. He will take care of his customers and try to adjust his rates to competitive conditions. His conclusive "no" will send potential borrowers to other banks, to the levelling of the business of all of them and a fairly accurate adjustment of interest rates. But, dealing only with banks, Federal Reserve officials will have an imperfect knowledge of these conditions. And yet upon them rests the obligation of leadership in checking or stimulating business by a proper adjustment of the rediscount rate, if the rediscount rate can do it.

It seems fair to say that while an effort may have been made or is being

made to adjust rediscount rates on the basis of ascertained future business operations, the probability is that the rate has been fixed only in relation to what is or what has been, so far as it has been fixed at all in relation to business activity.

CONCLUSIONS

The import of this article has been:

1. That rediscount rates cannot be fixed on the basis of British experience.
2. The opinion that rediscount rates should be higher than commercial bank rates is based on experience during war conditions and business contraction which may not be a sufficient guide for the future.
3. Rediscount rates have heretofore been fixed chiefly by consideration of factors other than their possible effect on business activity.
4. Rediscount rates can affect business activity only through bank rates which bank customers must pay.
5. Bank rates are not only different in different sections, but are determined by present conditions, whereas business commitments are made for the future.
6. To influence business activity, bank rates would have to be determined in relation to the future commitments of customers and the rediscount rate would have to be in correspondence with the bank rate, both as to amount and time.
7. It is the knowledge and judgment of bank officers and reserve officers on which reliance must be placed for the control of business conditions through credit.
8. Insofar as the rediscount rate can affect business activity, it must be determined far in advance if it is to have any appreciable effect.

There has been no disagreement among bankers as to the necessity for raising the rediscount rate when the need of checking business activity was certain. If recent conditions gave promise of permanency, there could be no question as to the desirability of having rediscount rates always higher than bank rates. On the basis of

actual recent experience only one policy has been warranted. But as to a policy to control in the future, further experience must be the guide. In any event, changes in rediscount

rates must be made well in advance of foreseeable changes in business activity, if the rates are to be used for the purpose they are commonly supposed to serve.

Theoretical Considerations Bearing on the Control of Bank Credit Under the Operation of the Federal Reserve System

By CHESTER A. PHILLIPS

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THE most important change in our banking machinery entailed by the Federal Reserve Act as bearing upon the question of the expansion and contraction of our circulating media is the introduction of compulsory bankers' banking. The essence of bankers' banking in the United States is the reserve dependence of the commercial banks upon the regional institutions. The deposits on the books of the regional banks are the reserves of the commercial banks. Inasmuch as the deposits of the regional banks are themselves expansible and contractile, the deposits of member banks, which would be elastic even if their reserve foundation were inelastic, now have an elasticity raised to the second power.

Moreover, the elasticity of both the deposits of the regional banks and of the members are buttressed and supported by the Federal Reserve note-issue provisions. Under the old national banking system an expansion of loans and a consequent expansion of deposits in the banking system was ordinarily accompanied by a rising physical volume of trade and rising prices. The growth in business transactions, coupled with higher prices, impelled men to carry more money in their pockets and merchants more

money in their tills. But the swelling of pocket and till money involved a withdrawal of cash from the commercial banks. As money left the banks, their lending power was curtailed, and expansion of credits and rising prices were brought to a halt.

Under the operation of the Federal Reserve Act an expansion of loans and a consequent expansion of deposits, accompanied by rising prices and expanding physical volume of trade, also impel men to carry more "money" in their pockets and merchants, more in their tills. Since 1914, however, the demand for additional pocket and till money has been met by the issue of *promises* of the Federal Reserve Banks to pay money. Lawful money is no longer lost by commercial banks. Instead it is held by the Federal Reserve Banks as a foundation on which is reared a three-fold credit structure: (1) deposits of Federal Reserve Banks; (2) deposits of member banks and (3) Federal Reserve notes.

The control of credit under our Federal Reserve System, therefore, becomes a matter of greater importance than under the old régime. Formerly an automatic check was imposed on credit expansion before extreme limits were reached. Today, in the absence of that automatic check,

we are to depend upon regulation of the rediscount rate as a chief means of control.

A MEMBER BANK CANNOT MAKE MANIFOLD LOANS

Now the effectiveness of the rediscount rate as an instrument of controlling bank loans and, therefore, deposits, hinges on the relation between the amount borrowed by a member bank and the amount that the same bank is able to lend as a result. If a member bank is able to lend five dollars on the basis of one dollar borrowed, it is evident that the borrowing bank would be willing and able ordinarily to pay more than 4 or 6 per cent for borrowed funds. On the other hand, if the borrowing bank is able to lend only dollar for dollar on the basis of borrowed funds, that bank will not ordinarily pay a higher rate of rediscount than it receives at its counter. What are the facts at this point?

It would at first appear that a borrowing bank would be able to make manifold loans on the basis of borrowed reserve. Does not the balance sheet of a typical national bank show loans (and deposits) equal to several times its reserve? If reserves of \$100,000 support loans of \$1,000,000 (and deposits of the same approximate amount), would not the acquisition of additional reserves of \$100,000 enable the bank to support total loans of \$2,000,000?

Normally, the bank that attempted to increase its loans by \$1,000,000 on the basis of \$100,000 new reserve would quickly be face to face with the problem of how to meet unfavorable clearing balances of large proportions. The borrowers of the \$1,000,000, leaving the proceeds of their loans on deposit, would draw checks against their bank balances for most of the \$1,000,000; those checks would be sent far and wide to creditors and, returning

to the bank in question, would be paid in cash or its equivalent. It is true that some of the checks drawn by borrowers would be sent to creditors who were depositors in the drawers' bank; in that event there would be no immediate corresponding loss of cash by the lending of the bank. It is also true that some borrowers would not withdraw all the funds borrowed. If due allowance is made for these two considerations, we may conclude that for every dollar that a typical American bank lends, it loses not less than eighty cents through direct cash withdrawals by borrowers and through unfavorable clearing balances.¹ In other words, the typical banker is able to lend approximately \$1.25 for each \$1.00 borrowed. It follows that rediscount rates roughly equal to the market rates (if the expense of carrying on the banking business is considered) will ordinarily be sufficiently high to serve as a check on borrowing by member banks.

BORROWED RESERVE SUPPORTS MANIFOLD LOANS IN THE BANKING SYSTEM

It may be added that borrowed reserve normally does become the foundation of manifold loans in the banking system. Bank A borrows \$100,000 from the Federal Reserve Bank and in turn lends \$125,000, more or less, to customers. The borrowing customers draw checks against their replenished balances and those checks are remitted to creditors. The creditors deposit the checks in their own banks. When the checks are cleared and collected, not only will the drawee bank lose approximately \$100,000 but other banks—banks B, we may say for

¹For a more nearly accurate and more detailed statement see the writer's *Bank Credit*, The Macmillan Company, New York, 1921, Chapter III.

convenience—will have gained that amount in deposits, and a corresponding amount in reserve. The lending officers of banks B, mindful of the fact that a reserve must be held against the newly acquired deposit liabilities as well as against any deposits arising from additional loans made on the basis of the reserve freshly acquired, will be constrained to add to their loans not \$1.25 for each dollar deposited, but, approximately \$1.10.

If banks B now lend \$110,000 on the basis of \$100,000 newly lodged in those banks, they will *tend* to lose to other banks—banks C—approximately 80 per cent of the amount loaned, or \$88,000; the \$12,000 left in banks C, may be regarded as reserve against the \$100,000 in deposit liabilities growing out of the lodgment of that amount of checks drawn on bank A and against additional deposits growing out of the \$110,000 in loans. Banks C, having acquired \$88,000, are in a position to lend approximately \$96,800 (\$1.10 for each dollar of deposited reserve). If 80 per cent of their loans are lost to other banks, banks C would lose \$77,440 and retain \$10,560 (\$88,000—\$77,440) as reserve against \$88,000 in deposit liabilities arising from the lodgment of that amount of checks drawn on banks B and against additional deposits growing out of the \$96,800 in loans.

This chain of operations continues until the original \$100,000 becomes very widely distributed and the total loan expansion results in deposits sufficient to cover or absorb the borrowed reserve.

CAN A BANK MAKE MANIFOLD LOANS DURING PERIOD OF LOAN EXPANSION?

At this point a crucial question arises. If all banks within a credit area were expanding their loans at the

same rate, would it not be possible for individual banks to make a several-fold loan expansion, consequent upon a reserve acquisition, without losing cash through unfavorable clearing balances, thereby rendering control of credit expansion possible only by raising the rate of rediscount unprecedentedly?

If the First National Bank of Dayton, Ohio, borrows \$100,000 from the Federal Reserve Bank of Cleveland at a time when other banks in the same credit area are likewise borrowing, and all expand their loans in such a manner that what each would normally lose in reserve is met and offset by streams of funds coming from other banks, the First National Bank of Dayton would be able to lend several dollars for each dollar borrowed, even if allowance is made for the likelihood that the proceeds of loans secured from the regional bank at Cleveland would be taken partly in Federal Reserve notes. Under these conditions, with the bank in question able to lend four or five dollars to each dollar borrowed, it has often been contended that a rate of rediscount that fell appreciably short of being four or five times the rate of discount or market rate would not be effective. That the contention is ill-founded may easily be shown.

When all banks in a given credit area are expanding their loans, the additional lending power of each is traceable to *two* quite different facts or forces. The first is the fund *borrowed* by the commercial or member bank, and the second is the fund or funds that such a bank receives through deposit channels and as a result of the lending operations of other banks. The point to be stressed is that what a member bank borrows does not determine the amount that it will receive in deposits that arise out of the lending operations of other banks. If within a

credit area where all member banks are borrowing and expanding their loans, one institution suddenly ceases to borrow, the stream of increasing deposits flowing from the expanding banks will tend to continue to swell the deposits and, therefore, the lending power of the bank that has ceased to borrow. A resumption of borrowing by the exceptional bank will enhance the lending power of that bank by an amount only slightly in excess of the amount borrowed.

A clear cut distinction must be drawn in banking between lending power that owes its existence to funds borrowed by a given bank and lending power that owes its existence to reserve acquired as a consequence of expanding loans on the part of *other* banks. When that distinction is clearly drawn the persistent contention referred to loses its semblance of validity.

Having seen on what grounds of sound theory the control of bank credit, *i.e.*, loans and deposits, rest, we may now be permitted briefly to examine the question whether the rediscount rate ought to be higher or lower than the market rate.

CONTROL OF BANK CREDIT THROUGH THE REDISCOUNT RATE

The rediscount policy of the Federal Reserve Board has gone counter to that of the great central banks of Europe, notably the Bank of England, the European policy having been to maintain the rediscount rate above the market rate.

Numerous guides have been followed by the directorate of the Bank of England in the determination of the bank rate: the reserve ratio, the state of trade, international gold movements and the market rate. Likewise, our Federal Reserve Board has also been governed by no single factor. While the state of trade, the reserve

ratio, the fiscal needs of the government, etc., have all received attention, the writer believes that too little effort has been made to bring the market rate into harmony with what may be called the *natural* rate of interest, the natural rate being the rate at which the supply of and demand for loanable capital goods, as distinct from "money," may be equated.

Although it is impossible always accurately to ascertain what the natural rate of interest is, it is not difficult to detect a wide disparity between the market and natural rates. The disparity between the market and the natural rates during the early period of credit expansion under the operation of the Federal Reserve Act, was due measurably to an inflationistic policy with a low rate of rediscount as its central feature. With a low rate of rediscount obtaining, our market rates were low and general prices rose in conjunction with an expansion of loans and deposits. Rising prices gave birth to rising profits, and the predictable increased demand for funds, with a consequent extreme rise in the market rate of interest, was soon in evidence. In a country like the United States where capital is highly productive and preference for present goods over future is pronounced, cheap money can be had only by making everything else dear; depression of interest rates engenders credit expansion and rising prices. Indeed, the price level is itself an index of the relation of the market to the natural rate when allowance is made for the changing phases of the business cycle.

Our extreme and recurrent expansion and contraction in industry and trade can be avoided, not by keeping the rate of rediscount invariably above the market rate, but by keeping it distinctly above the market rate during periods of expansion and less markedly so, or

even below the market rate, during periods of crisis and depression. Let the brakes of high rediscount rates be set early, long before the bottom of the hill is reached; and let the accelerating

force of low rates be applied with similar promptness and decision. If the market rate is kept in harmony with the natural rate, violent changes in the general price level can scarcely occur.

Agricultural and Commercial Loans

A Comparison of Loans Made in a Great Agricultural State with Loans to the Largest Bank and to Member Banks in the Largest City in the Seventh Federal Reserve District .

By J. B. McDUGAL

Governor, Federal Reserve Bank of Chicago

IT would be too much to expect the general public to have more than a casual comprehension of banking or of the relations of the Federal Reserve Banks to other banks or to business. It is not expected that the public will understand the operations of a factory which makes electrical machinery or of the electrical machines that are made. Still any well informed man may know in a general way what a dynamo is and have a grasp of what is meant by horse power. So might he know that a bank in a great central city probably generates a large horse power in credit and that comparison of the operations of such a bank with those of any smaller bank can be valuable or informative only if relative size is considered.

In this country there are banks of all kinds and sizes. The customary method of grading banks is by "capital and surplus," and "deposits." It takes 40 banks with \$25,000 capital each to measure up in capitalization to one with \$1,000,000. It takes 400 such banks to equal a \$10,000,000 institution. If the comparative figures are carried far enough, and total resources are used as the basis, it will be found that there are single banks in New York and Chicago with resources

larger than the combined resources of all member banks in certain individual states or perhaps in several states.

These large banks have as customers many small banks, as well as individuals and corporations. When borrowing from the Federal Reserve Banks, their transactions are usually in large amounts. It is natural that what is considered moderate borrowing for a large bank should appear extravagant when compared with the amount borrowed by a small bank. A loan of fifty million dollars appears very large when compared with one of fifty thousand. Relatively, however, fifty millions may be much more moderate than fifty thousand, if due consideration is given the respective reserve balances maintained with the Federal Reserve Bank by the institutions involved.

For instance, an officer of a country bank called at the Reserve Bank one day and asked for an additional loan. At the time his bank had become so extended that its excessive borrowings had been the subject of considerable correspondence. He was told that a definite limit must be placed on his borrowings at a point not far from the amount already borrowed. The country banker was piqued. He called at-

tention to the many millions loaned to some of the Chicago banks. The country bank's debt was less than two hundred thousand. A comparison was made at once. It was found that on the basis of reserve deposits the big banks might have owed the Federal Reserve Bank nearly three times as many millions if they had borrowed in the same proportion as the small bank.

A part, at least, of the criticism of the operations of the Reserve Banks during the recent trying times seems to be based on instances of similar misconception of facts and figures. A moderate borrowing by a large bank may appear out of proportion when compared to an actually excessive borrowing by a small bank, if only absolute figures are used.

In connection with the work of the Joint Committee on Agricultural Inquiry, which was instructed to "investigate . . . the banking and financial resources and credits of the country, especially as affecting agricultural credits," the Federal Reserve Bank of Chicago made a careful study of its loans to member banks. The purpose was to ascertain if there had been any discrimination, real or apparent, against banks serving agricultural communities.

Section 4 of the Federal Reserve Act was kept in mind. This section, in outlining the duties of directors of Federal Reserve Banks, provides as follows:

Said board shall administer the affairs of said bank fairly and impartially and without discrimination in favor of or against any member bank or banks and shall, subject to the provisions of law and the orders of the Federal Reserve Board, extend to each member bank such discounts, advancements and accommodations as may be safely and reasonably made with due regard for the claims and demands of other member banks.

The study developed some interesting facts that are pertinent to this discussion. The loan records of commercial banks are not kept in such form that borrowers can be classified by occupations in any comprehensive way. It is true that for some time past Federal Reserve Banks have required member banks in their applications for rediscount to specify the business of customers whose notes are offered. But this information provides no adequate measure of the extent of the service rendered to agriculture. It is well known that many country banks make a practice of using their farmers' paper for rediscount only after exhausting their supply of other eligible paper which is presumably better known at the Federal Reserve Bank, such as, "commercial paper" and notes secured by United States government obligations.

No statistics are available to show the absolute amounts loaned to various industries, but the Federal Reserve Bank of Chicago was able, by a comparison of its loans to member banks, to obtain conclusive evidence that it had not discriminated against agriculture. Loans to and reserve deposits of member banks in a preëminently agricultural state were compared with similar figures for member banks in the other states as well as the largest cities in the district.

One of the tabulations made is printed in full on page 201 and presents an interesting comparison of the relative borrowings by all member banks in the preëminently agricultural state with all member banks in the city of Chicago and with the individual bank whose borrowings exceeded those of any other bank in the Federal Reserve District.

The table on page 201 includes percentages, showing the ratio of amounts borrowed to reserve deposits kept in the Federal Reserve Bank, a method

LOANS TO ALL MEMBER BANKS IN A GREAT AGRICULTURAL STATE COMPARED WITH LOANS TO THE LARGEST BORROWING BANK IN THE SEVENTH FEDERAL RESERVE DISTRICT AND LOANS TO ALL MEMBER BANKS IN THE CITY OF CHICAGO; ALSO, COMPARATIVE RESERVE DEPOSIT FIGURES.

(In thousands of dollars)

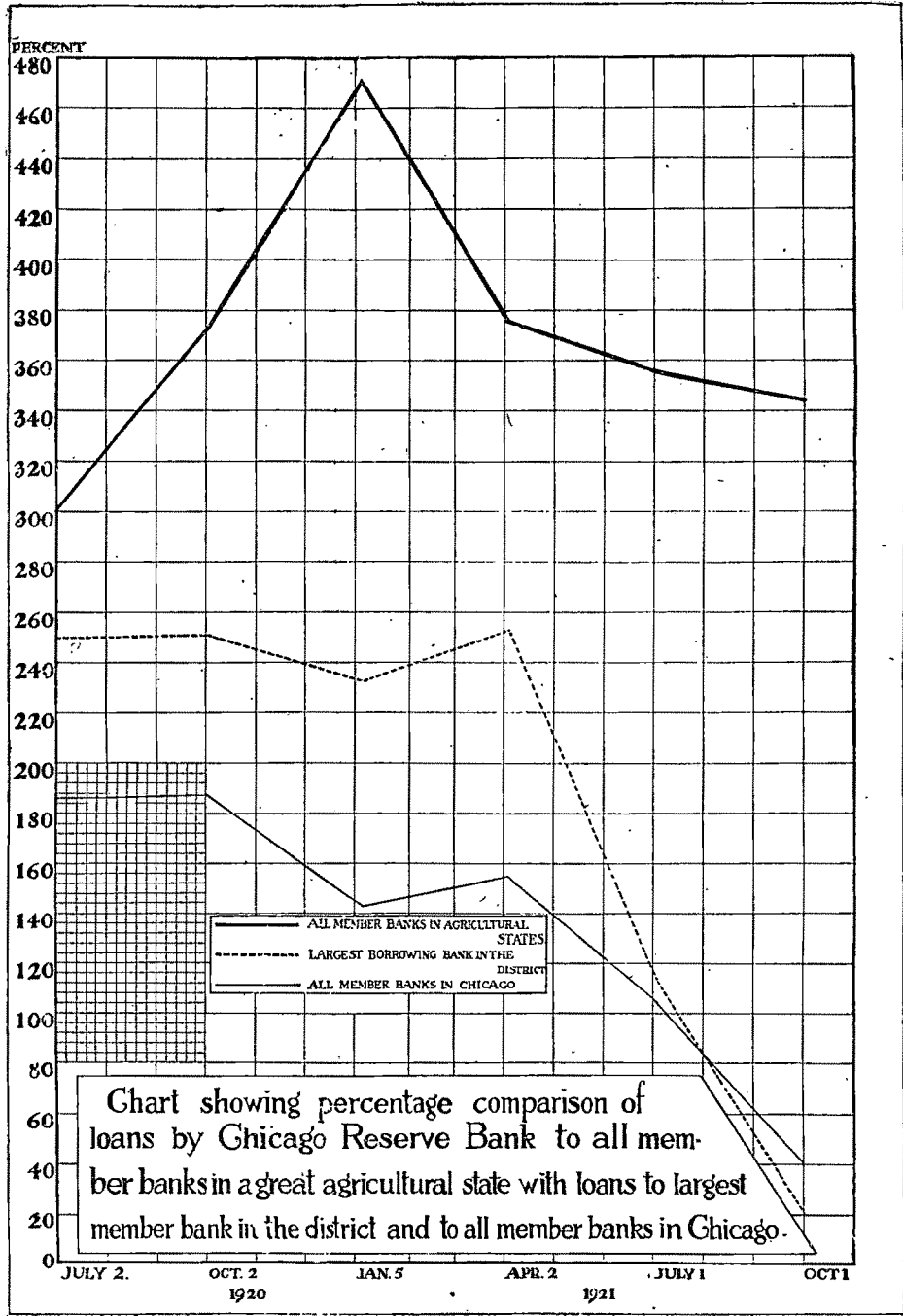
		All member banks in Agricultural State	Largest borrowing bank in the District	All member banks in Chicago
July 2, 1920 . . .	*Reserve Deposit	21,000.	32,000.	135,000.
	Loans	63,000.	80,000.	252,000.
	Per cent loans to reserve deposit	300.	250.	186.6
October 2, 1920.	*Reserve Deposit	21,000.	31,000.	133,000.
	Loans	78,000.	78,000.	250,000.
	Per cent loans to reserve deposit	371.4	251.6	187.9
January 5, 1921.	*Reserve Deposit	20,000.	30,000.	130,000.
	Loans	94,000.	70,000.	187,000.
	Per cent loans to reserve deposit	470.	233.3	143.8
April 2, 1921 . . .	*Reserve Deposit	20,000.	28,000.	121,000.
	Loans	75,000.	71,000.	188,000.
	Per cent loans to reserve deposit	375.	253.5	155.3
July 1, 1921	*Reserve Deposit	18,000.	29,000.	123,000.
	Loans	64,000.	33,000.	123,000.
	Per cent loans to reserve deposit	355.5	113.7	104.0
October 1, 1921.	*Reserve Deposit	18,000.	32,000.	127,000..
	Loans	62,000.	7,000.	51,000.
	Per cent loans to reserve deposit	344.4	21.9	40.1

* Average for month.

of comparing accommodations granted which is familiar to all bankers. The figures are given at intervals of three months and cover the period of greatest expansion of credit in the United States. It is worthy of note that the total borrowings for all member banks in the agricultural state were on one day nearly five times their total reserve deposits, while the total borrowings of the largest borrowing bank in the Federal Reserve District at the peak were about two and one-half

times its reserve deposit. It is also interesting to note that while on October 1, 1921, the largest borrowing bank in the Federal Reserve District was indebted to the Federal Reserve Bank to the extent of only 22 per cent of its reserve deposit, the total borrowings for all member banks in the agricultural state on the same date were 344 per cent of their total reserve deposits.

It will also be noted from the chart on page 202 showing these percentages,



that since April 2, 1921, there has been great decrease in the amounts owed by the city banks, while the curve for the agricultural state does not show a proportionate decline.

This examination of actual figures makes clear two points: (1) There

was no discrimination against agriculture by the Chicago Reserve Bank. Member banks in cities were not favored. (2) Relative, rather than absolute, figures must be used if an accurate idea of the situation is to be had.

Popular and Unpopular Activities of the Federal Reserve Board and the Federal Reserve Banks

By WILLIAM A. SCOTT
University of Wisconsin

ON account of the extraordinary conditions under which our Federal Reserve System has been obliged to operate, public opinion towards it has taken peculiar twists and turns. Hopefulness, uncertainty and lack of enthusiasm characterized it at the start, a condition easily explainable by the party controversy which preceded its establishment, differences of opinion regarding the details of the law governing it and conflicts of interest among the people most directly affected by it. Those who had fought and bled for the Aldrich plan were naturally critical of this one and uncertain regarding the manner in which it would work. The state bankers, generally, were hostile towards it because they feared that some of their sources of profits would be jeopardized, and many national bankers did not like its coercive features. The indiscriminating public undoubtedly hoped that it would succeed and was disposed to give it a fair trial.

The outbreak of the European War, three months before the Federal Reserve Banks were ready to begin operations, cleared the atmosphere and smoothed the pathway for them so far as public opinion was concerned, though in other respects it complicated their

problems. The financial difficulties which speedily followed made most people thankful for their existence and created a feeling of dependence upon them. No one was disposed to hamper them by criticism.

Before our entrance into the War, their activities do not seem to have attracted public attention to an extent sufficient to arouse either its criticism or its approval. The policy developed during this period of concentrating in their vaults as large a part of the rapidly increasing gold supply as possible by exchanging their notes with the banks for gold, important though it was in checking somewhat the rapidly expanding bank credits and in rendering this mass of the precious metal easily available for any purpose for which it might be needed, seemed to excite curiosity rather than interest.

WAR COMPULSIONS

With our entrance into the War in April, 1917, the Federal Reserve Banks were called upon to assist the Treasury in its colossal financial operations. As financial agents of the government, they performed the work of executing its plans and measures and, what is more important, so long as the War lasted and for some time thereafter,

their policies were shaped primarily with reference to the government's needs and interests.

The greatest of these was the flotation of billions of bonds and short time notes, and the Reserve Banks' part in the work was to act as the government's agents in the sale of these securities and to aid in creating a market for them. To this end they established discount rates considerably below the market with a differential in favor of loans on the security of government bonds and notes, rates low enough, in fact, to make it possible, with the aid of rediscounts, for member banks to loan without loss to bond buyers at rates not higher than the bonds and notes themselves yielded.

There can be no doubt that this was a violation of the rules of sound commercial banking. It opened the doors to the inflation of bank credit and to the evils which follow in its train. Conscious though they were of this fact, the Federal Reserve Banks and the Federal Reserve Board were forced to adopt this policy. The Liberty loans could not otherwise have been floated. Without borrowing from their banks, the people could not have purchased their necessary allotment of bonds, and the banks could not have made these loans unless the Federal Reserve Banks had rediscounted for them on the security of these loans at rates which did not involve loss. Had the Reserve Banks refused to adopt this policy, public opinion would certainly have condemned them and probably Congress would have forced them to it.

RESPONSIBILITY FOR THE RISE AND FALL OF PRICES

One of the penalties that had ultimately to be paid for this violation of sound banking principles was misunderstanding and criticism, not criticism of this policy, which had the hearty and

even enthusiastic endorsement of public opinion, but criticism of the measures the Federal Reserve Banks had ultimately to adopt in order to save themselves and the credit system of the country from the consequences of this policy.

This misunderstanding and criticism resulted from the contemporaneous expansion of bank credits and the rise of prices. Both were necessary results of the same causes, namely, the readjustments in the relations between the demand and supply of important groups of commodities and the transfer on a large scale of demand operations from private individuals and corporations to the government. But the people, with the assistance of a group of economists, interpreted the causal relations differently. They insisted that the expansion of bank credits was the cause of the rising prices, and, since the discount policy of the Federal Reserve Banks was held to be chiefly if not wholly responsible for the inflation, these banks were held responsible for the high prices.

This theory aroused no widespread criticism of the Federal Reserve Banks so long as prices continued to rise and prosperity to be general, but, when the high price period came to an end and the opposite movement got under way, the belief that the Federal Reserve Banks and the Federal Reserve Board could greatly influence and perhaps control price movements subjected them to pressure from people who were being, or thought they were being, injured by the slump in prices and, when the banks did not yield to this pressure, to the severe criticism of these people.

The course of events which resulted in such pressure and criticism seems to have been about as follows: The Armistice was succeeded by about a year and a half of booming business, accom-

panied by extravagance, speculation and soaring prices. Bank credits, including those of the Federal Reserve System, expanded rapidly, and bank reserves rapidly declined. Towards the end of 1919 ordinary prudence and a decent regard for the safety of our credit system demanded that a halt be called. The Federal Reserve Board and the responsible officers of the Federal Reserve Banks felt and knew that good banking policy would have required them to put on the breaks much earlier, but they were stopped by the financial exigencies of the government whose need for floating large loans did not end with the Armistice. The government needed the aid of the Federal Reserve Banks quite as much as during the War.

During the year 1919 the Federal Reserve Banks and the Federal Reserve Board tried in vain to moderate the pace of the member banks by moral suasion and other indirect methods and it was not until December of that year that the financial condition of the government freed their hands to such an extent that they felt free to apply the brake of increasing discount rates.

The upward movement of prices came to an end in the early summer of 1920 and the slump that followed synchronized very closely with the period of high discount rates at the Federal Reserve Banks. The pressure upon the banks to carry people who were in trouble on account of the rapidly shrinking value of inventories, and farmers whose crops could either not be marketed at all or at prices much below the cost of production, was very great. The Federal Reserve Banks and the Federal Reserve Board urged the member banks to extend all possible assistance to these distressed people and supported them in this policy by liberal rediscounts, with the result that the total loans and discounts of the

banks continued to increase for several months after the slump in prices started and did not show any tendency to decline until near the end of the year 1920. The demand for bank accommodations was so great as to keep rates at a high level and to make excessive rates possible in individual cases.

PRESSURE FOR LOWER REDISCOUNT RATES

In times of financial distress people always search for an explanation in the hope of finding some means of relief, and, in this case, the process of reasoning outlined above, running from Federal Reserve Bank discount rates through general bank credits to prices, seemed to furnish the key and also to suggest a remedy. Proof that low discount rates result in expanding bank credits and rising prices and high discount rates in contraction of credits and falling prices, seemed to be at hand in the fact, easy to establish by statistics and graphs, that prices did rise during the period of low discount rates and began to fall soon after the policy of higher discount rates was inaugurated. The remedy seemed clearly to be a radical cut in discount rates, which, it was claimed, would result in the expansion of credits or, at least, in preventing contraction and in a check on the price slump and, if continued, in an upward movement of prices.

The spokesmen of the distressed classes in the community deluged the Federal Reserve Board with appeals for this kind of relief and, upon its refusal to grant it, with criticism and, in some instances, even with abuse. The Board was clearly between the devil and the deep sea. There was no question about the necessity for high discount rates and the removal of the differential in favor of government paper-secured loans if the credit system of the country was to be kept in a

sound condition; but it was equally clear on the other hand that that policy was unpopular.

RECENT CRITICISMS OF RESERVE BOARD POLICY

The old saw that misfortunes never come singly proved true in this case. At this truly critical time the Federal Reserve Board was publicly attacked in newspapers and before Congress. Beside the abolition of the progressive rates in force in four of the districts and a general cutting of discount rates, it is not easy to determine precisely what these critics wanted the Board to do, but one demand seems to have been for it to undertake the task of cleaning up all the dirty places in our banking system even to the extent of correcting the bad practices of individual bankers. Through the examinations conducted by the Controller of the Currency a number of these had been discovered or at least it was so thought. It was also demanded that the Board use its influence with the Federal Reserve Banks to force or to induce them to refuse to grant credit to member banks that were not playing the banking game in the manner in which the critics thought it ought to be played.

In the course of this campaign of criticism, a number of charges were brought against the Federal Reserve Board and the Federal Reserve Banks, especially that of New York City. The chief of these were: that the Board is suffering from "bureaumania" and is unsympathetic, governing itself by general rules which it refuses to relax in individual cases which are thought to appeal to the sympathy of its members; that it is extravagant, sanctioning too high salaries and other unnecessary expenditures; that it has permitted an inequitable distribution of credit, Wall Street being favored and the farmers pinched; that it refused to abandon the

progressive rate policy or even greatly to modify it when cases of what were regarded by the critics as excessive rates were brought to its attention, and that it refused to reverse its rate policy when the harm being wrought by the slump in prices became apparent.

In support of these charges, the critics indulged in fallacious reasoning, misuse of statistics and the familiar tricks of the political stump speaker. They frequently disregarded those parts of the Federal Reserve Act which determined the distribution of powers and duties between the Federal Reserve Banks and the Federal Reserve Board, or put an interpretation upon them which varied from that made by the Board. In matters of this kind there is often room for differences of opinion, but the critical energy was moved by the assumption that the Board was wrong and refused to conform to the judgment of a superior wisdom.

Apparently the critical force had no conception of the consequences that would follow the Board's failure strictly to follow general rules of action impartially applied. Even if the laws under which it operates gave it the right so to do, the attempt to deal with the cases of individual bankers or of individual borrowers would soon swamp it with an unmanageable mass of detail and render impossible the execution of any policy however necessary or desirable.

The favorite method of proving that Wall Street was being favored and the farmers pinched was to quote statistics that show that the Federal Reserve Bank of New York was loaning at one time to one member bank, or to a few large member banks; more than certain other Reserve Banks in the agricultural sections were loaning to large numbers or to all their member banks. That it is necessary to observe the relation between the amount of the real credit needs of all the constituents of each

Federal Reserve Bank and the total amount of loans in each case before such statistical comparisons can have any significance, either never occurred to the critics or they chose to ignore the fact in order to make an effect on their audience. Moreover, these facts were not emphasized: That Reserve Banks in the farming country borrowed from other Reserve Banks, usually in the East, or that large banks in centers like Chicago ran up their indebtedness at the Federal Reserve Banks, in part if not chiefly, to help their correspondents located in agricultural sections.

Much was also made of the fact that some member banks in the New York district, rediscounting heavily at the Federal Reserve Bank, were themselves loaning heavily to speculative customers, without attempting to show what was the proportion of such loans to the total in each case or how cutting down the lines of discount of these banks at the Federal Reserve Bank would have affected their constituents as a whole; or without even debating the question whether it would be good policy for the Federal Reserve Bank in New York to refuse to rediscount good, eligible paper for a bank on the ground that it disapproves some of its loans.

The opponents of Reserve Board policy appear to believe that the Federal Reserve Bank of New York and the Federal Reserve Board are guilty of sins of omission or of commission relative to the New York call loan market. They argue that high rates on that market attract funds from other parts of the country which ought to be loaned at home and otherwise would be. Just how they would use the Federal System to prevent this they nowhere make clear. Perhaps they would have the Federal Reserve Bank of New York refuse to rediscount for a bank that loans on the call market!

With almost hysterical enthusiasm were cited the cases of a little bank in Alabama and a few others in which the application of the progressive rate rule had resulted in very high rates on a few loans. These were exploited to the limit in public addresses. The members of the Reserve Board probably disliked these extreme results of the progressive principle quite as much as anyone else, but they stubbornly thought out their own remedy. They recommended a rebate of the excessive interest payments in these cases and the deferring of final judgment on the principle itself until wider experience should give them more light. The critics had their own notions, however, and one was to play upon the feelings and prejudices of their audiences through the use of these extreme cases.

The refusal of the Board to lower discount rates when the slump in prices occurred was classed as "unpardonable." The arguments disclosed complete unconsciousness of the fact that there was room for differences of opinion regarding the best policy to pursue at that time or of the reasons for the Board's refusal. The Board's action could only be accounted for on the ground of "inertia" or "inability to comprehend the meaning of events."

DISCRIMINATION AGAINST THE FARMER

The criticism that the Federal Reserve System has discriminated against the farmers seems to have been endorsed by a good many people in agricultural sections, especially in the South and some parts of the West where farmers have been especially hard pressed by the slump in prices. The real credit needs of these farmers have been very great and their desire for credit in many cases has been in excess of their needs, since they wanted loans to enable them to hold their crops for cost-of-production-plus-profits prices for the

realization of which there were no real prospects. In many cases, doubtless, these needs and desires have not been satisfied and the Federal Reserve Banks, or the Federal Reserve Board, or both, have been held responsible for the failure. Why?

The testimony of Governors Harding, Strong and others before the Joint Commission of Agricultural Inquiry clearly shows that the Federal Reserve System has not been at fault in this matter; that, on the contrary, the resources of this System have been put at the disposal of member banks in the agricultural sections without stint and that member banks have been urged to respond to the farmers' needs to the fullest extent possible. There is no evidence that rediscounts of eligible paper have been refused member banks in these sections, but, on the contrary, the evidence shows that the Federal Reserve Banks in these regions have borrowed heavily from other Federal Reserve Banks and stretched the eligibility rules to the limit in order to accommodate such banks. There is also abundant evidence that member banks have taken advantage of these privileges and as a whole have responded liberally to the farmers' needs. Their rediscounts and loans have expanded rapidly since the slump in prices began, the former passing far beyond the normal lines of credit set for them by the regulations of the Federal Reserve Banks, and in many cases member banks have gone beyond the limits set by sound practice in order to accommodate their farmer customers.

LIMITATIONS OF COMMERCIAL BANKING

The explanation of the farmers' criticisms must be sought in a misunderstanding of the limitations of our commercial banking system, on the one hand, and of our Federal Reserve System, on the other. These critics do

not know that the chief stock-in-trade of commercial banks is short time self-liquidating paper, that the amount of any other kind of paper they should carry is strictly limited and that, if they go beyond this limit, they get themselves and everybody else into trouble. Nor do these critics realize that a large part of their own paper in normal times, and most of what they have to offer in these critical times, is not of the short term self-liquidating kind. It is unfortunate that we do not have institutions especially fitted to satisfy these credit needs, but the fact is that we have not. Our banking system is defective at this point, but from this fact it does not follow that it would be good policy, or any advantage, even to the farmer, to wreck our commercial banks in an effort to do what they are unfitted to do.

Neither do these farmer critics seem to know that a Federal Reserve Bank can serve them only through a member bank and then only by means of rediscounting eligible paper. If the member bank with which the farmer deals does not have eligible paper or is unwilling to offer it for rediscount, the Federal Reserve Bank can do nothing.

MISGUIDED OPPOSITION

The farmer has also misunderstood the operation of high rediscount rates, especially those of the progressive variety. He has thought that these rates have prevented rediscounts by his bank and in this way have made it impossible for his banker to accommodate him. In some cases, doubtless, he has been given this impression by the banker himself who has preferred "passing the buck" to the Federal Reserve Bank to giving his customer the true reason for his unwillingness to accommodate him. That rediscounts in agricultural sections have not been prevented by high rediscount rates is

shown by the facts. The rediscount item has increased in spite of these rates. What these high rates were intended to accomplish and what they evidently did accomplish, was to force more careful discrimination between real and unreal and between greater and lesser needs and to cut down the volume of speculation.

Farmers have also been infected by the theory that the so-called deflation policy of the Federal Reserve Banks caused the slump in prices.

PUBLIC SUPPORT OR CLASS CONTROL

No one would be so rash as to claim infallibility for the Federal Reserve Board or for the responsible officers of the Federal Reserve Banks, least of all these persons themselves. It would be strange if they had not made mistakes. They have had to conduct a new institution during a period in which conditions were excessively abnormal and in which principles and rules of action, seemingly well established by experience, were clearly inapplicable. They have had to blaze new trails and to settle new problems upon which very little light was thrown by past experiences here or in other countries. But no fair-minded person can read and digest the testimony of Governors Harding, Strong, Miller and others before the Joint Commission of Agricultural Inquiry and escape the conviction that every policy they

adopted was carefully thought out in the light of the actual conditions confronting them, that these policies worked on the whole extremely well and in the best interests of the country, that these men are able and conscientious and know their business and that the country was very fortunate to have the operation of the Federal Reserve System in their hands during this extremely critical period in its history.

The unfortunate thing is that few of the fair-minded people of the country can or will read that testimony. The ordinary man knows little about banking and would find it difficult to understand discussions regarding it if he did read them. Public opinion regarding such matters is not formed by careful reflection and weighing of the facts. Large numbers of people are bound to be influenced and to have their opinions determined by such criticisms as have been made. Since the charter period of the Federal Reserve Banks extends for several more years, the effect of this misguiding of the public mind and feeling is likely to be demands upon Congress for modifications of the Federal Reserve System in the direction of making it subservient to special interests and attempts to put the system in the control of men who will use it in the promotion of such interests. It is time for the friends of sound banking to be on the alert.

The Development of an Open Market for Commercial Paper

By E. E. AGGER

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IT is the function of an open discount market to promote mobility, elasticity and maximum economy in the use of credit. Mobility is assured through

the free sale and purchase of bills and paper acceptable as a basis of dealing in the market. Where pressure is felt bills are offered for sale and the result-

ing funds relieve the pressure. The funds are offered by those districts where temporary abundance prevails, and where, therefore, a profitable employment of the surplus is sought. Thus, through the instrumentality of the discount market, funds are transferred from places where they are wanted less to places where they are wanted more. This is the essence of credit mobility. Just as an open discount market promotes mobility of credit it also promotes elasticity, namely, expansion and contraction in response to changing demand. An increase in demand is indicated by a growing abundance of paper offered in the market. A decrease in demand is likewise reflected in the liquidation of maturing paper, and in the diminution in the volume of new paper flowing into the market and offered for sale. The more abundant offering of new paper tends to lead to credit expansion, while the liquidation of that which matures, and which is not offset by a corresponding offer of new paper, results in contraction.

An open discount market can be developed irrespective of the system of reserve organization that may characterize a given country. Even under a system of scattered reserves, there is nothing to prevent banks and individuals in different sections of the country from buying and selling discounts from and to one another and from developing whatever market machinery may be necessary for the purpose. Yet since such operations necessarily imply large and rapid movements of funds, it is obvious that under a centralized scheme of reserves, with effective clearing machinery, the inevitable shifting of funds growing out of open market operations can be executed with least friction and delay.

Moreover, under a centralized system

of reserves an open discount market contributes toward economy of operation of the credit system because, by promoting the free flow of funds, it permits the full utilization of available credit in the market before further expansion by the central institution becomes necessary. If pressure develops in any area, through the facilities of the open market the surpluses of other areas can immediately be drawn upon without initial resort to the reserve holding agency. With an open discount market the free credit tends to be completely absorbed before the central reserve agency is called upon for the expansion that usually implies a weakening of basic reserves.

Lastly, it may be said that an open market may also be serviceable in the international flow of credit and in the safeguarding of the domestic reserve situation. If the market is sufficiently well established, and if the dealings in it are of a nature and a scope to engender the necessary confidence, the foreigner may be induced to enter in it and to invest in its wares such surplus funds, temporarily available, as he can command. As demand increases and as rates of discount rise, larger and larger sums may be attracted from abroad. This tends favorably to affect the exchange rates and may obviate the necessity of bullion shipments.

CONDITIONS CREATING AN OPEN DISCOUNT MARKET

Since an open discount market cannot create itself, it follows that the development of such a market must be contingent upon a favorable conjuncture of circumstances.

First of all, an open discount market requires forms of discountable credit instruments that will lend themselves to a free market handling. Not all credit instruments, of course, are available for open market operations. Un-

der the old national banking system, both law and practice checked the development of satisfactory open market instruments. The typical American credit instrument under that system was the single name promissory note, which, owing to the obviously personal character of the credit which it represented, was not adapted to open market operations. We had a so-called "commercial paper market," but its facilities were at the service only of large and nationally known firms. Moreover, it was a market for the first placement rather than for the free rehandling of paper. It would therefore hardly be regarded as a real discount market.

Similarly, the old commercial time draft which had been a common instrument in pre-Civil War days, degenerated, under the pressure of the cash-discount and the open-account system, into a sort of "dunning" instrument, employed, in all except a few lines, for the purpose of collecting overdue accounts. The bankers' acceptance, on the other hand, which is admirably adapted to free and rapid exchanging, was practically unlawful down to the time when provision was made for it in the Federal Reserve Act and in some state laws. Thus we had no open discount market in this country because we had no paper that could be handled in such a market.

But in addition to a satisfactory commodity to be handled in a market, it is also necessary to have prospective buyers and sellers. In other words, there must be a favorable attitude toward the market and a willingness to use its facilities on the part of those who are expected to resort to it. But in this respect, also, American banking practice had developed along different lines. We had put the emphasis on independent, highly competitive local institutions, each more or less distrust-

ful of the rest and safeguarding its business secrets with a peculiar jealousy. The cash-discount and single-name system also tended to emphasize the direct relations between the banker and his client and was thus inimical to the development of a system which implied the free handling of paper in an open market. In general, except in their relations with their regular metropolitan correspondents, bankers did not wish to confess the need for any assistance. Hence there was a strong tendency for them to hold on to the paper that they had originally discounted. They also often objected to disclosing the rates which they originally charged, and some have accused them also of wishing to "hog" the whole interest and of being unwilling to split it with others through a process of rediscounting or reselling in an open market. However all this may be, the fact remains that our bankers were not particularly well disposed toward open discount market operations.

THE RESERVE SYSTEM PROVIDES AN OPEN MARKET

The framers of the Federal Reserve Act thus had a task on their hands. The advantages of an open discount market were freely enough conceded, but how were they to provide the necessary technical expedients? And how lay the foundation for a favorable attitude toward such a market? In an earlier article published in *THE ANNALS* in January, 1916, the writer discussed the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board bearing on the subject of commercial paper and promulgated up to that time. The great contribution of the Act itself was a system of reserve centralization and control, the basis of a system of domestic clearings and transfers, and the legalization of

bankers' acceptances. These acceptances were at first limited to export and import transactions, but were later made applicable to domestic transactions as well. Similarly, the amount of acceptances for which a member bank might make itself liable was increased from 50 per cent to 100 per cent of its combined capital and surplus. The Board's contribution is to be found in the regulations which it has drawn up in connection with the different forms of commercial paper and in the policies which it has pursued toward encouraging the use of, and the investment in, paper acceptable for open market operations.

At the present time it may be said that Section 13 of the Reserve Act supplies the member banks with their authority to engage in the acceptance business. The acceptances which they create must have a maturity not greater than six months, exclusive of days of grace. They may grow out of transactions involving the exportation or importation of goods or out of those involving domestic shipments, but in the latter case the acceptances must be accompanied by shipping documents conveying or securing title at the time the member bank makes the acceptance, or they must be secured by warehouse receipts or other such documents conveying or securing title covering readily marketable staples. Similarly, under regulations drawn up by the Board, member banks may accept drafts or bills of exchange drawn upon them by banks or bankers abroad where the purpose is to furnish dollar exchange required by the usages of trade. Such acceptances must not, however, have more than three months' sight to run.

The total amount of acceptances for each member bank is restricted to a sum equal to one-half of its paid-up and unimpaired capital and surplus, al-

though under general regulations the Reserve Board may authorize a member bank to accept bills growing out of exports and imports up to the full amount of its capital and surplus. There is, however, the proviso that in no event may the domestic or the dollar exchange acceptances exceed a total of fifty per cent of the member banks' capital stock and surplus. Similarly, there is a general restriction to the effect that no member bank may accept for any one person or firm to an amount greater than 10 per cent of its paid-up and unimpaired capital and surplus unless the member bank is secured either by attached documents or by some other adequate security growing out of the same transaction as the acceptance. All acceptances in these different classes which mature within three months, exclusive of days of grace, and carry the indorsement of at least one member bank, are eligible for discount at Federal Reserve Banks.

But more important still, so far as an open discount market is concerned, are the provisions of Section 14 of the Federal Reserve Act. This section authorizes Federal Reserve Banks, under regulations prescribed by the Board, to purchase and sell in the open market, at home or abroad, from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities made eligible for rediscount, with or without the indorsement of a member bank.¹

Since nothing like an open discount market had developed in this country, it was foreseen that in trying to build one up and to win the support of the

¹ In this connection attention should be called to the fact that some of the states have also authorized their banking institutions to engage in the acceptance business.

member banks, the leadership of the Reserve Banks would have to be relied upon. This is what gives special significance to the provisions of Section 14. For the same reason much significance attaches also to the regulations of the Board bearing on the eligibility of paper for rediscount at and for open market purchases by the Reserve Banks.

In general, it may be said that paper to be eligible for discount must have grown out of a transaction involving "producing, purchasing, carrying or marketing goods in one or more of the steps" of "production, manufacture or distribution, or for the purpose of carrying or trading in bonds or notes of the United States."² On the other hand, it must not be paper whose proceeds are to be used for fixed investments of any kind or for other capital purposes; or paper used for speculative purposes or for lending to others. Various expedients such as statements, shipping documents, warehouse receipts, etc., are relied upon to guarantee the essential nature of the paper and to safeguard its security. For purposes of rediscount Section 13 of the Reserve Act made eligible notes, drafts and bills of exchange of certain types. But open market purchases by the Reserve Banks were limited to bankers' acceptances and bills of exchange of the kinds and maturities made eligible for rediscount by Section 13. The effect of this limitation was to rule the promissory note out of the field of open market purchases, leaving within this field bankers' acceptances, bills of exchange and so-called trade acceptances which are defined as drafts or bills of exchange "drawn by the seller or the purchaser of goods sold, and accepted by such purchaser."³

THE RESERVE SYSTEM ENCOURAGES AN OPEN DISCOUNT MARKET

From the beginning the Reserve Board has done all that it could to further the development of an open discount market. It encouraged the Reserve Banks in their efforts to emphasize the importance of acceptances as investments, not only by their own purchases but also in the favorable rates that were accorded them. The Board has cordially approved the acceptance service that some of the Reserve Banks have provided for their member banks. Similarly, the Board has also dealt generously with acceptances in its regulations and decisions, although it has tried at the same time to maintain the principles laid down in the Reserve Act with respect to the fundamental character of the paper. During and immediately after the War the Board stretched a point with respect to renewal paper, but only in exceptional cases can such paper now be considered eligible.⁴

Favorable rates of discount were recognized from the outset as the strongest practical stimulant to the growth of an acceptance market. In their open market purchases the Reserve Banks, that were primarily concerned, quoted more favorable rates for acceptances than for other commercial paper and granted the same discrimination also for acceptances directly discounted for the member banks. Such preference was considered fully justified by the essential character of the paper. On the other hand, the Reserve Banks allowed the open market rates to control buying rates as largely as possible, shading the rate slightly where a strong indorse-

² Regulations A, Series of 1920.

³ Regulation A, Series 1920, Section V.

⁴ See *Sixth Annual Report of the Federal Reserve Board* covering operations for the year 1919, page 22. *Ibid.*, page 33.

ment justified it. To induce broader purchases by member banks the Board itself recognizes that a differential rate must be maintained in favor of prime bills indorsed and rediscounted by member banks. Such differential always assures the member bank of some profit should it find it necessary or desirable to rediscount at its Reserve Bank the acceptances that it has purchased.⁵

SPECIAL INDUCEMENTS TO BUY ACCEPTANCES

As a further inducement to member banks to invest in acceptances, some of the Reserve Banks have maintained special lines of service. The New York Bank, for example, has for several years bought bills in the open market on member bank account. If desired, the Reserve Bank retains the paper, collects it at maturity and credits the member bank's account.⁶ The Richmond Reserve Bank also buys acceptances for its member banks and allows the member bank to specify the names of the acceptors whose paper is wanted.⁷ The Richmond Bank also has been buying unindorsed bills directly from the acceptors. This encourages the member bank to utilize its acceptance powers, and, at the same time, affords the Reserve Bank the opportunity of keeping well informed concerning the methods employed in the granting of acceptance credits. The Boston Bank has been making persistent efforts to cultivate investment in acceptances for secondary reserve purposes. The Cleveland and Chicago Banks report a steady broadening of the market as a result of successful missionary work

with their member banks through their member bank relations department.⁸

In the development of the acceptance market it was recognized that the dealer would of necessity play an important part. It is essential to the success of the acceptance that it be quickly sold after acceptance has been effected. The dealer has been increasingly relied upon to effect a rapid distribution of the paper as it is created. Naturally, unless there is a rapid turnover in the market, the dealer may have to carry large amounts. This requires more capital than most dealers can afford, and hence some of the Reserve Banks have followed the practice of carrying a part of this load. The Banks take the paper for fifteen day periods under a re-purchase agreement, pending distribution.⁹ This has made it possible for the dealers to operate continuously on a much larger scale than would otherwise be the case, and it has meant much, therefore, in the upbuilding of the market.

EXTENT OF THE ACCEPTANCE MARKET

The principal market into which acceptances flow is, of course, New York. This has thrown a special burden on the New York Reserve Bank, but through allotments to other Reserve Banks this burden has been distributed to some extent.¹⁰ Purchasers of acceptances were at first only the larger banks, but today dealers have as clients in addition to many banks, corporations, firms and private individuals.¹¹ During the past year heavy purchases on foreign account have also been made.¹² Moreover, in some states

⁵ See *Sixth Annual Report of the Federal Reserve Board* covering operations for the year 1919, page 23.

⁶ Report of Federal Reserve agent, *Sixth Annual Report of the Federal Reserve Board*, page 319.

⁷ *Seventh Annual Report of the Federal Reserve Board*, page 52.

⁸ *Seventh Annual Report of the Federal Reserve Board*, page 52.

⁹ *Ibid.*, page 51.

¹⁰ *Ibid.*, page 51.

¹¹ *Ibid.*, page 50, p. 366.

¹² See Report Federal Reserve agent, New York District—*Seventh Annual Report of the Federal Reserve Board*, p. 382.

by act of legislature bankers' acceptances have been made eligible investments for savings banks and this promises a fruitful source of demand. The main development has naturally come in the larger industrial and commercial centers. The Board states that, as a rule, in the South, Southwest and certain parts of the West, member banks have only partially exercised their acceptance powers, while purchasers of acceptances are almost exclusively banks in the larger centers

of these districts.¹³ But it is reasonable to suppose that as time goes on the advantage of the acceptance as a liquid, short-time investment will be quite generally recognized and the scope of the market should be more nearly countrywide than it is now.

The general trend of the acceptance may be indicated by a few tables. Table I shows the acceptance liabilities of member banks at each controller's call since November, 1915.

Tables II and IIA show the Reserve

TABLE I. VOLUME OF MEMBER BANK ACCEPTANCES AS PER THE CONTROLLER'S CALL FOR THE SPECIFIED DATES ^a

(In thousands)

November 10, 1915.....	266
December 31, 1915.....	32,876
March 7, 1916.....	42,677
May 1, 1916.....	62,452
June 30, 1916.....	73,641
September 12, 1916.....	81,290
December 27, 1916.....	107,909
March 5, 1917.....	108,550
May 1, 1917.....	118,799
June 20, 1917.....	157,870
September 11, 1917.....	198,231
November 20, 1917.....	153,645
December 31, 1917.....	217,190
March 4, 1918.....	230,164
May 10, 1918.....	250,323
June 29, 1918.....	231,805
August 31, 1918.....	243,772
November 1, 1918.....	332,719
December 31, 1918.....	305,101
March 4, 1919.....	269,173
May 12, 1919.....	224,150
June 30, 1919.....	272,035
September 12, 1919.....	323,226
November 17, 1919.....	359,109
December 31, 1919.....	407,639
February 28, 1920.....	424,669
May 4, 1920.....	438,430
June 30, 1920.....	431,196
September 8, 1920.....	414,583
November 15, 1920.....	406,525
December 29, 1920.....	375,416
February 21, 1921.....	345,644
April 23, 1921.....	304,231
June 30, 1921.....	250,925

^a Specially prepared by the Division of Analysis and Research of the Federal Reserve Board.

¹³ See Report Federal Reserve agent, New York District—*Seventh Annual Report of the Federal Reserve Board*, p. 382.

TABLE II. FEDERAL RESERVE BANK DISCOUNTS AND PURCHASES OF TRADE AND BANKERS' ACCEPTANCES ^b

(In thousands)

YEAR	DISCOUNTS		PURCHASES IN OPEN MARKET	
	Bankers	Trade	Bankers	Trade
1915.....	....	1,959	64,814	31
1916.....	....	5,212	369,762	16,333
1917.....	....	37,771	1,046,765	30,948
1918.....	19,940	187,373	1,748,503	61,036
1919.....	71,643	138,420	2,788,619	36,558
1920.....	187,162	192,157	3,143,737	74,627
1921-9 Mo.....	49,810	101,129	996,851	6,687

TABLE IIA. SAME DATA BY MONTHS FOR 1920 AND 1921 TO DATE

1920	DISCOUNTS		PURCHASES IN OPEN MARKET	
	Bankers	Trade	Bankers	Trade
January.....	17,226	16,520	299,746	2,706
February.....	28,611	11,001	296,959	3,349
March.....	34,534	23,383	298,459	4,901
April.....	28,172	15,296	240,704	6,890
May.....	15,254	16,541	270,498	3,739
June.....	9,431	13,938	261,333	24,419
July.....	7,069	13,457	209,296	10,168
August.....	5,490	14,011	247,438	12,270
September.....	8,103	17,160	255,858	2,131
October.....	10,354	19,389	230,162	1,670
November.....	13,275	15,143	230,832	1,008
December.....	9,643	16,318	252,452	1,376
Year.....	187,162	192,157	3,143,737	74,627
1921				
January.....	8,430	20,171	121,135	1,064
February.....	6,159	13,256	167,362	2,079
March.....	11,512	11,709	148,698	557
April.....	7,404	10,860	121,412	2,099
May.....	6,560	9,768	137,980	622
June.....	3,790	9,937	64,599	75
July.....	1,942	8,673	46,623	47
August.....	1,408	8,781	107,270	33
September.....	2,605	7,974	81,772	111
9 Months.....	69,810	101,129	996,851	6,687

^b Specially prepared by the Division of Analysis and Research of the Federal Reserve Board.

TABLE III. BILLS BOUGHT IN OPEN MARKET^a
(In Thousands of Dollars)

Federal Reserve Bank	1917	1918	1919	1920	1921 (9 mos.)
Boston.....	86,481	194,158	360,782	304,445	....
New York.....	445,307	945,498	1,211,399	1,697,330	....
Philadelphia.....	70,710	77,686	14,049	41,232	....
Cleveland.....	51,007	122,800	261,750	294,602	....
Richmond.....	54,759	70,766	52,977	51,712	....
Atlanta.....	25,388	45,477	51,661	39,576	....
Chicago.....	61,142	122,787	292,012	345,021	....
St. Louis.....	22,788	26,096	87,503	36,020	....
Minneapolis.....	16,397	13,903	108,712	18,060	....
Kansas City.....	17,561	14,691	26,086	17,173	....
Dallas.....	9,743	25,024	12,412	8,348	....
San Francisco.....	48,018	150,653	345,827	364,845	....
Totals.....	909,301	1,809,539	2,825,177	3,218,364	....

^a Yearly returns Seventh Annual Report Federal Reserve Board, p. 52.

Bank discounts and purchases of bankers' and trade acceptances for indicated periods.

Table III shows the purchases in the open market by or for the account of each Federal Reserve Bank during the years 1917-1920 included and for the first nine months of the present year.

FUTURE DEVELOPMENT THROUGH BANKERS' ACCEPTANCES

It will be observed that from the spring of 1920 down to the last quarter of 1921 the volume of operations declined. This was due primarily to the great decline in our foreign trade, but the collapse at home also exerted a considerable influence. Another notable circumstance is the specially large drop in trade acceptances as contrasted with bankers' acceptances. The experience with trade acceptances has not been particularly encouraging. In nature, the trade acceptance differs diametrically from the bankers' accept-

ance and experience seems to prove that it lends itself to serious abuse.¹⁴ Evils have been complained of also in connection with bankers' acceptances, but such evils can be handled through the banks more easily than trade acceptance abuses can be remedied through the more numerous and less amenable private business firms. The future development of the open market is thus likely to rest more and more completely on the bankers' acceptance, and a great impetus would be given to this development if in domestic business a credit procedure based on the bankers' acceptance were more widely employed.

¹⁴ The Federal Reserve agent of District No. 1 in his 1920 report to the Board says: "The development of the use of trade acceptance—at least the domestic trade acceptance—unlike that of the bankers' acceptances, does not appear to have been entirely satisfactory. That they have been misused there is little question, and for the most part the banks in the district do not feel any more favorably disposed, if as much so, to encourage their use than in the past.

The Efficiency of Credit

By O. M. W. SPRAGUE

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A GOOD irrigation system and a perfect system of credit would exhibit strikingly similar characteristics. The supply of credit, as of water, would be abundant, produced at a minimum cost, and free from interruption or exhaustion. Adequate means of distribution would be developed to furnish the water in the one case and credit in the other to every part of the territory to be served. And then, to secure good results, judgment must needs be exercised in both cases. Unintelligent and lavish use of the water will be harmful to the crops and may exhaust the most abundant sources of supply. Similarly with credit, unrestrained use has an unfavorable effect upon industrial output, stimulates a rank growth of speculation and is the principal cause of extreme fluctuations in the general level of prices. Irrigation experience also teaches that extensions and improvements in one direction may be wasteful and even positively hazardous unless they are accompanied by balancing developments in other directions. This essential requirement, if a credit system is to develop in a satisfactory fashion, is commonly overlooked. The establishment and operation of the Reserve Banks has introduced many and important changes in our banking system. Whether that development has been a well balanced development is, in my judgment, the most searching and important question raised by our credit experience during the last six years.

MORE CREDIT AT LOWER COST

An increase in the supply of credit and a reduction in basic costs are definite results of the changes in our

banking arrangements brought about by the establishment and operation of the Reserve Banks. The reduction in reserve requirements for member banks and the concentration of those reserves in the Reserve Banks, where they become in turn the basis for further credit in the form of Federal Reserve notes and also of reserve balances, have greatly reduced the amount of gold or other reserve money required to support a given volume of credit. Estimates of the saving thus secured vary somewhat, but for our present purpose it is sufficient to note that all calculations agree in the conclusion that gold is now a basis for at least twice as much credit as in the period before the Reserve System was established.

A reduction in the amount of gold required to support a given volume of credit would be followed by a positive reduction in the cost of bank credit if the volume of credit was not enlarged. Less gold would then be used for banking purposes, and the surplus could be used in the arts or exported in payment for goods, services or securities. Again, insofar as additional credit might serve to increase production, a positive advantage would be derived from the reduction in reserve requirements. But manifestly the amount of additional credit that can exert a favorable influence upon production is small. A large increase in the supply of credit, if freely used, is a positive detriment to industry. Its effects are seen in rapidly advancing prices, an over-extended condition of business concerns generally, and widespread speculation, culminating in crises and followed by trade depression.

Leaving out of consideration the special case of the use of credit in financing the War, it is not easy to discover any positive gain that the country has realized from economy of gold which has been secured through the establishment of the Reserve System. So far, the results have been unfavorable. The additional credit was freely extended and we now are enduring the inevitable consequences. So far as the supply of credit is concerned, a repetition of this experience is entirely possible. Loan liquidation, always an incident of periods of depression and abnormal gold imports, is placing the banks in position to grant billions of additional credit as soon as an active demand develops.

A more certain gain from the Reserve System is the assurance that the flow of credit will not be interrupted through exhaustion of supply or by the working at cross purposes of the banks as happened in successive crises down to and including the crisis of 1907. This assurance that the flow of credit will not be interrupted in the future is not the result of the increase in the supply of credit. It could have been gained without any increase whatever in credit supply. The exhaustion of the lending power of the banks on future occasions of financial strain is altogether unlikely because the Reserve Banks recognize responsibility for the general credit situation in this regard, and regularly hold in reserve, power to extend credit on an extensive scale to be used freely in case of emergency. Through the Reserve System the banks of the country have also become closely knit together for settlement purposes, and there is therefore no longer reason to fear that they will suspend payments on future occasions of financial strain. In short, that a future crisis will degenerate into a panic is no longer one of the hazards

to which the conduct of business is subject.

THE DISTRIBUTION OF CREDIT

Turning now to the distribution of credit, the Reserve System is found to have made considerable, though by no means fundamental, changes. On account of the almost complete absence of branch banking in the United States, credit is far less fluid in this country than elsewhere. The supply of credit in each community, and especially in the smaller ones, is in large measure limited to the resources of the local banks eked out by such amounts as they may choose or are able to borrow from banks in other places. Through the Reserve Banks the borrowing facilities of many local banks have been materially enlarged. But it still remains true that credit is far less fluid than in the countries where banking is conducted by banks operating regional or nation-wide systems of branches. This is the price, not necessarily too high a price, that we pay for our system of independent local banks.

It is in the employment of credit that the least change has followed the establishment of the Reserve System. Aside from certain general restrictions, each local bank, and properly, is free to employ its funds as may seem to it advisable. The Federal Reserve Act widened the scope of the lending activities of the banks somewhat by authorizing them to accept a limited range of bills of exchange and to lend a moderate amount on mortgage security. The Act also aimed at making commercial loans more attractive by excluding other loans, with the exception of those secured by United States government obligations, from rediscount at the Reserve Banks.

These changes in the law and modifications in banking practice are im-

portant, but were not expected to change materially the general character of the assets of the banks.

MORE CREDIT WITHOUT NEW USES

This, then, is the gist of the situation resulting from the establishment and operation of the Federal Reserve System: an enormous increase in the available supply of credit and no considerable new uses for this credit. No new uses for credit are needed to absorb this additional supply. The bulk of this additional credit cannot be employed with advantage to the community, but only to its positive disadvantage. Credit serves a productive purpose by facilitating the transfer of capital assets and of goods in process of production and marketing. But when business is active, and people are already fully employed, additional doses of credit do not result in a larger physical output of goods. Additional credit then subjects all industry to the unhealthy influence of protracted advance in prices. The demand for credit grows more and more intense and is practically without limit. At such times, moreover, the thousands of competing banks are quite incapable of imposing restraint upon borrowers so long as they possess unused lending power. The fear that desirable depositors will go elsewhere is strong and warps judgment. In these circumstances, cautions and warnings from the Reserve Banks have little effect; they were not heeded in 1919.

The Reserve Banks now have a reserve which is nearly 75 per cent of their demand liabilities, with prospects good for a still higher ratio before conditions become favorable for a period of renewed business activity. Rediscounts to the amount of about \$3,000,000,000 could be granted and still, in the absence of gold exports,—an unlikely event—the Reserve Banks would be

well within legal reserve requirements. On the basis of the credits secured through these rediscounts the commercial banks of the country would be able to extend loans by from two to three times the amount discounted. In other words, it may be conservatively estimated that there is at least ten billion dollars of unused bank credit in the United States at the present time.

THE DISCOUNT RATE AND THE PRICE LEVEL

In the Federal Reserve System we have an agency which has the power to make a vast increase in the supply of credit for the bulk of which there is only one influence that will create an intense demand. That influence is rising prices. A moderate advance in prices may indeed have a beneficial effect on production after a period of depression, but a prolonged upward swing of prices creates speculative conditions, stimulates speculative activities, and tends to bring all but the most cautious business concerns into an over-extended condition. Such a prolonged upward movement of prices with all its disastrous consequences is hardly possible without large use of the credit resources of the Reserve Banks. It would seem, therefore, that the effect of advancing prices on the general business situation should be a factor of the first importance in shaping the discount policy of the Reserve Banks, assuming more and more importance as a period of business activity continues. The management of the Reserve Banks is, however, by no means inclined to this view of the matter. Responsible officers of the banks and also members of the Federal Reserve Board roundly assert that they are not concerned with the course of prices and that in the determination

of discount policies the price situation is not a definite factor.

The attitude of the management of the Reserve Banks in regard to responsibility for the course of prices forcibly recalls an experience of the most ancient of central banks. For more than a generation, the directors of the Bank of England stoutly insisted that the Bank was no more responsible for the situation in time of crisis than any other London bank. Finally, largely as a result of repeated onslaughts by Bagehot in *The Economist*—given more permanent form in *Lombard Street*—the policy of the Bank was definitely reversed and the course that has become universal practice in handling crises was adopted.

There is unhappily little doubt that the Reserve System has lost somewhat in general public estimation during the

last two years. It bears much of the burden of the consequences of the unwise low discount policy which the Treasury Department unwisely insisted must be continued for more than a year after the Armistice. The wisdom subsequently manifested in refusing to give way to demands for additional credit, which would have made a bad situation worse, could not be expected to make a strong appeal to the people at large. For the future, if not prevention, at least clear evidence that the Reserve System has not contributed to the creation of the intense activity that breeds depression is a reasonable demand on the part of the public. This expectation will not be realized if large additional supplies of credit are furnished by the Reserve Banks at times when prices are rising rapidly and persistently.

Book Department

BALDWIN, D. C. *Capital Control in New York (State)*. Pp. xxiv, 225. Price, \$3.00. New York: McDevitt-Wilson's Inc., 1921.

Up to a few years ago, many public utilities had the habit of claiming that "a contract was a contract," while, lately, a large part of the consuming public has been inclined to adopt the slogan as its own. But there has of late been evident a growing realization on the part of the public that while revenge may be sweet, it has its limitations as a steady diet. We can exist without the utilities, but we cannot "live" without them; not only are they indispensable to our present standard of comfort, but they are already lagging far behind our demands upon them. The utilities, on the other hand, cannot serve us without a sound basis of credit, the foundation of which is a budget which not only balances, but allows for the necessary reserve and emergency funds. The result of the harrowing experiences of the last five years is that now, after the pendulum has been allowed to swing both ways, both the utility corporations and the public have experienced a deeper realization than ever before of the mutual benefit to be derived from the proper governmental control of the issuance of securities.

In view of the more widespread realization of this fact brought about by recent events, a study of the regulation of security-issues accomplished in the State of New York is welcome at this time. New York was one of the first of our commonwealths to inaugurate effective control in this matter, and, being the wealthiest and most populous of the states, the problems involved were especially numerous and complex; in fact, the First District Commission, with jurisdiction over the city of Greater New York, had to cope with problems that were unique and without a parallel, either in this country or in Europe.

The author of this monograph has traced the growth of New York's administrative regulation of security-issues from the first crude and nominal beginnings in the early fifties of the last century to the middle of 1918, since which time little of constructive

significance has been accomplished. Really effective control of securities in the State of New York dates from the going into effect of the Public Service Commissions Law (July 1, 1907). This act was fathered by Governor Hughes and its final enactment was due almost wholly to his persistent efforts. The passage of this act marked an epoch in public utility regulation. For years the control of the issuance of securities by regulative bodies had been recognized as the key to all the other aspects of utility regulation, and this act, creating the Public Service Commissions of the First and Second Districts, respectively, not only granted them power to compel the rendering of adequate service to the public, but also clothed them with authority to approve or reject proposed issues of stocks and bonds. In the ten years following 1907, the New York Commissions accomplished a vast amount of pioneer work with the aim of securing as conservative capitalizations as were possible in the face of the chaotic conditions with which they were confronted, to the end that the investing public might be protected without the necessity of exploiting the consuming public either through the furnishing of inadequate service or the charging of exorbitant rates.

The principles worked out by the Commissions during this period, and subsequently upheld or modified by the courts, make an interesting study both from the standpoint of governmental authority and of investment protection. In the further elaboration of sound governmental control of security-issues, which recent experience has shown to be so necessary for all parties concerned, these principles will be regarded as among the most valuable precedents available.

HAYES, EDWARD CARY. *Sociology and Ethics*. Pp. viii, 354. Price, \$3.00 net. New York: D. Appleton and Company, 1921.

This book may be said to be a footnote to a paragraph in the author's *Introduction to Sociology*, published five years ago, in

which he wrote (page 4): "Sociology aims at nothing less than the transfer of ethics from the domain of speculative philosophy to the domain of objective science." The book is essentially a plea for an objective scientific ethics—for a sociology which is an objective scientific ethics.

Ethical theory, according to Dr. Hayes, who is professor of Sociology at the University of Illinois and now president of the American Sociological Society, has passed through the "three stages of progress" of Comte's famous classification. It first had its theological stage, in which the moral law was regarded as the voice of God in the soul of man. Then followed the metaphysical period, with the concept of moral law as an abstraction emanating from the "Ding an Sich." Finally, it is in process of entering the "scientific" stage, in which rightness and goodness of conduct will be determined by scientific study of the realities of life, wherein the values of life will be determined objectively.

It is a thought-provoking book. Sociologists who have emphasized the pure rather than the applied side of their subject will find their practice sharply challenged. Historical ethics is reminded of its a priori assumptions and preoccupations with an abstract individualism. Theologians and moralists, alarmed by the deterministic implications of social science, are reassured, such implications being reconciled in their traditional views. Although the book is marred by a deal of repetition, obviously the result of intermittent effort scattered over a number of years, it is a searching but optimistic analysis that will repay careful perusal.

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BARKER, J. ELLIS: *Modern Germany, Her Political and Economic Problems.* Pp. vii, 496. Price, \$6.00. E. P. Dutton & Co., 1921.

This is the sixth edition "entirely rewritten and very greatly enlarged." The writer is a widely known and very able authority, whose writings in the leading British journals have attracted wide attention. In this edition he had condensed

much that appeared in earlier editions and included seven new chapters.

LIPPINCOTT, ISAAC: *Economic Development of the United States.* Pp. xvi, 691. Price, \$3.50. New York: D. Appleton and Company, 1921.

One of the greatest needs of American students has been for a suitable economic history of the United States. Perhaps time is necessary for the scholars of any country to produce such a work because of all that is involved. At any rate, for that reason or for some other, there has been a dearth of satisfactory studies. Even the monographic literature has been comparatively meager.

Professor Lippincott has taken a great step in advance in his treatment. As he observes in the introduction, he has not limited himself to a mere record of industrial progress, but has endeavored to bring together causes and results. After an introductory section on factors in economic development, the treatment is by periods through 1914 with a concluding chapter on the war period from 1914 to 1920. Emphasis is well distributed over the different periods and a common defect of such studies—over-emphasis on the earlier years—seems to have been avoided. The distribution of space between different phases of development may, however, be more open to criticism. For the period from 1860 to 1914 only two chapters are given to the extractive industries and two to agriculture, a total of 89 pages, while to manufactures and commerce are given eight chapters or 220 pages. We are still nearly fifty per cent a rural population. This fact and the acute problems presented by our rural conditions would seem to warrant a different emphasis.

The volume is the best study yet available, both for private reading and for the classroom, and will doubtless find a wide use.

BOWMAN, ISALAH, Ph.D. *The New World.* Pp. vii, 632. Price, \$6.00. New York: World Book Company, 1921.

The past few months have been months of intensive education of the American people in affairs international. The conclusion

of the World War with its remaking of maps and its reordering of industries and of markets has made this world a very small one. This book gives a wealth of world facts each citizen should have at his disposal.

The book is a geography replete with maps reliable and up to date; but it is more than a geography. The book is a history in that the important epochs in the historical, industrial, social and racial developments of each of the countries are noted; but it is more than a history: It is a treatise of world-wide industry in that it gives the location and output of coal mines, and iron mines and other natural resources; it locates the world's industries, it outlines the world's waterways, pictures the world's routes for trade, and gives the industrial backbone of every nation. And yet it is more than a book on industry. It is also replete with matters political in their development and social in their origin. And yet it is something more than a source book on the leading social and industrial facts of the nations of the earth. The book is a mine of information as broad as human life itself and this information is concisely put and is accurate in its scholarship. Only one in close touch with the extensive sources of the American Geographical Society, and in close touch with all the information open to government officials preparatory to the many recent world conferences, could have had access to the diversified sources from which the knowledge in this volume has come.

The book discusses the problems of imperial Britain, the political and colonial aims of France, Belgium as the crossroads of Europe, the Italian situation, the democratic drift in Spain, Portugal's colonial policies, transportation and industrial problems of Switzerland, the Scandinavian countries and Holland, the problems of the

German people, the national existence of Austria, the new Hungary, the domain of the Czecho-Slovaks, Jugo-Slavia and the Adriatic, the new frontiers of Rumania, the mountaineers of Albania, the reunited Greek lands, the borderlands of Poland, the development of Lithuania, land tenure and trade outlets in Esthonia and Latvia, the geographical setting and the problems of Finland, the ethnic groups of the Russian Empire with the background of the Russian disorder, Constantinople as a European thoroughfare, the Jewish homeland—Palestine, Anatolia—the last remnant of the Turkish Empire, the Transcaucasian peoples, the interests of Persia in their relation to British industry, the unsettled land of the Nomad in inner Asia, the raw materials in the Far East and their control, the expansion of Japan toward the mainland of Asia, the conflict of Chinese and Japanese interests, the Pacific realm and Australia, the past and present status of colonies, the European powers in Africa, boundary disputes in Latin America and the relations between Latin America and the United States.

Such a recital of the contents of the book gives some idea as to its value as a reference book at these times. Not the least valuable part of the book is its carefully prepared bibliography covering each of the points mentioned above and many, many others. In an Appendix is given a list of dates and names of principal treaties and agreements from 1814 to 1920. In addition to the maps are many choice illustrations reflecting the natural and industrial activities of many of the leading countries of the world. The book is a credit not only to the author but to American scholarship in general.

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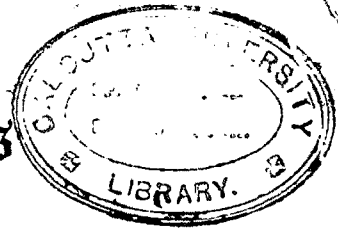
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RUSSIA TODAY

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THE DETERMINATION OF WAGE-RATES

Editor-in-Charge

THOMAS WARNER MITCHELL

THE AMERICAN INTERVENTION IN HAITI AND THE DOMINICAN REPUBLIC

By

CARL KELSEY

THE AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE

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kind of issue is eliminated by experience. During all these four years Russian Monarchists have been working to introduce the former order of things. But such attempts have only brought about the complete failure of armed struggle for Russia's liberation. The so-called "White armies" had considerable military success in the beginning, but invariably a great change would come, a hasty retreat and then evacuation. This is explained by the attempts of these White armies to introduce in Russia the former state of things. They brought with them former landowners and former administrators and as soon as the peasants saw these they changed their minds, deciding it would be worse than Bolshevism.

Of course, there are still some groups of former officers of the "White armies" who are being organized and helped with money, particularly by German reactionaries. Their aim is, as before, to make use of Russia for their own economic restoration. However, even if they should succeed in taking some part of Russia, the attempt would not amount to much because of the aforementioned state of mind of the Russian people. The masses would never submit to the reactionaries and this would only prolong the Revolution.

NO POSSIBILITY OF REVERSION TO ANARCHY

Some people say there is yet another possibility. Russia, if not made monarchist and brought back to its former state may revert to anarchy. Mr. H. G. Wells is responsible for that judgment and Mr. Lloyd George for repeating it in the House of Commons. Both, I think, are very much mistaken.

It is wrong to think that all the intellectuals in Russia have been thoroughly exterminated by the Bolshevik terror and that nothing is left beside an

amorphous mass of uneducated and unawakened people, unable to act politically. To prove that this is wrong, I will quote a fact universally known, the story of the Moscow Non-Communist Famine Committee.

The creation of this committee elicited such a reverberation, both inside and outside of Russia, that the Bolsheviks became frightened. Provincial branches of the Moscow committee sprang up everywhere and began to be regarded by the population as the organs of a new administration, intended to take the place of the Bolshevik organizations. Finally, the Bolsheviks decided to put a speedy end to an experiment which proved so dangerous for them.

You can see from this fact that even at present Russia is not a desert and that elements of organization can still be found wherever you go. You may find everywhere, by the side of destruction and ruin, germs of new life. Under that heavy cloak of Bolshevik uniformity Russia is alive and not dead, in spite of all her miseries and sufferings. You can see, therefore, how mistaken is the view that a state of anarchy and chaos is bound to follow when the bonds of Bolshevik power are removed. Elements of new power, the nuclei of new governmental structure, are to be found everywhere in the country and they can crystallize at any moment as liquid crystallizes under a certain degree of temperature.

Thus Russia will not return to monarchy and will not become anarchist. The two extremes, Red Bolshevism and Black reaction, are made impossible by history. Russia will be a great democracy. There are middle groups which are united and which work together to bring about that great result of the Russian Revolution.

Russia will be a federated republic. You know that Russia is now dismem-

bered. A number of border states have been built out of Russian territory. They will not come back if Russia attempts to dominate them as before. They can be brought back only on the basis of a free and friendly agreement under a new form of federative government. Of course, such an arrangement is not easy. The example of Mr. Lloyd George in Ireland shows how much small nations appreciate their independence and how much they are opposed to even the loosest forms of reunion. But there are certain geographical and economic ties which have united all parts of former Russia for centuries and which will bring them back together if national freedom and autonomy is fully secured. From a "colossus on feet of clay," an empire of the Eastern style, Russia will be transformed into a living compound of national and regional units, having come to a compact on the basis of equality, freedom and federal unity. Thus Russia will be healed of what was one of the chief causes of her constitutional weakness.

The new union will, of course, be loose in the beginning. But we have the example of America. In Philadelphia, in the summer of 1787, there first met an assembly which worked out the basis of the present Constitution, and you may recall how exceedingly difficult it was at the beginning to build one united nation. Now we see that great united nation before us. Russian history will develop in the same way and bring about the same achievement.

CONTRIBUTION OF A RUSSIAN REPUBLIC TO INTERNATIONAL PEACE

Now one question more: If Russia becomes a democratic and federated republic, what can Russia contribute to international peace? My answer is, in the first place, that the Russian people are naturally peaceful. You

may conceive that tendency of the Russian people if you think of your own Middle West: a territory which has no boundaries, no neighbors of foreign origin, and which has little to do with foreign politics. In the second place, there are in Russia no reasons for imperialism. What was the basis of this tendency in Germany and now in Japan? Over-population and over-production. These conditions do not exist in Russia. There is no over-population in Russia, no over-production of goods. The Russian people are in need of foreign capital to assist them. They have all necessary raw material at home, just as you have in America. Their huge continental block has resources sufficient to feed itself and to produce goods for itself; no matter how many goods it might produce, they would still not be sufficient to fill its own expanding market. So Russia has practically no reason for wishing to possess colonies or for adopting a colonial policy.

It must be said, also, that Russia is a young nation, practically as young as America. It would be wrong to represent Russia as an old country with an old population. There are centers which are very old, which have been settled since time immemorial, but they are only the nuclei of present Russia. The largest part of Russia was settled at nearly the same time as America, in the sixteenth and seventeenth centuries. Its population which extends to the Far East is the result of that large stream of Russian settlement to the east. It is only since the seventeenth century that Russia has begun to settle Siberia and the process of settling Siberia is still going on at a rapid rate. In 1897, the population of Siberia was 9,000,000; in 1915, it was 14,000,000. Of this, the white population in 1897 was 5,000,000, and in 1915, 10,000,000—just double. If you will take only the eastern part of

Siberia (the part discussed at the Disarmament Conference¹ in Washington) you will see that in the same eighteen years the white population has increased almost five-fold. And it has not by far reached its natural degree of density.

Let me add a few words to show how much we Russians are interested in the Washington Conference. We are not imperialistic, but we may have a conflict with a power which we do consider imperialistic, and that is Japan. It is a conflict which will not originate in aggression on our part but which will result from such tendencies on the other side. During the time of our absence from the international tribunals, Japan, making use of our temporary weakness, took possession of certain parts of Russian Far East which do not belong to her and which are occupied by white population. The Japanese took the northern part of the Sakhalin Island. They took, also, the seashore opposite with a very good bay, De Castries, where they are now building a harbor. They took a town which dominates the estuaries of the Amur River—Nicolayevsk. Going still farther northward they took from the Russians the fishing grounds in the Okhotsk Sea and in Kamchatka. In that way they try to stop the Russian colonization on the Pacific Ocean. These colonies are the only white population in that region and form a kind of white girdle, uniting Europe with the Pacific. If this advance of the white race on the Pacific Ocean is precluded, Russia, in case of necessity, will be unable to extend her hand to America across the Pacific.

¹ Conference on the Limitation of Armament. Washington, D. C. November 11, 1921.

AMERICA'S SYMPATHY WITH RUSSIA'S EVOLUTION

The policy of the United States toward Russia at this hour of her trial is so noble and unselfish, that we Russians believe that nothing can ever destroy the American-Russian friendship. In a series of declarations, America defended the principle that the interests of a nation must not be impaired in the temporary absence of its government. And if the foundation for universal peace is to be preserved, a country like Russia cannot be neglected in her vital interests.

The Russians appreciate deeply this attitude of the United States. In the War they sacrificed 7,000,000 men for the common Allied cause. In spite of the fact that Bolshevism is the result of Russia's exhaustion in the struggle for the common cause, there were some who dared to call her traitor, after she unwillingly abandoned the battlefields on which many times during the War she had saved the European democratic civilization. America alone was never heard to make or support such unjust statements. This fact may further explain Russia's friendship and respect for America.

Russia has never had such a famine as she has now. Millions there are dying. But again the Americans are at hand, the only ones, to save the lives of these millions. Down to the last peasant in the remotest corner of Russia the population knows and appreciates this. We feel this is the greatest hope for friendship between the two great democracies, for we believe that Russia will be a great democracy and will deserve a place at the side of America.

Russia in the Fabric of International Finance

By ARTHUR BULLARD

Director of the Russian Division of the Committee on Public Information during the War and, subsequently, Chief of the Division of Russian Affairs of the Department of State.

IN meeting the situation in Russia, I have a suggestion I should like to offer for your consideration—in the same way that Nero used to toss Christians to his lions.

We cannot foretell the course of events in Russia. It may be that the more extreme Communists will hold the control of the Soviets for a long time, and they do not wish to do business with the rest of us in less enlightened parts of the world. As long as they are in power the suggestion I wish to offer is meaningless.

Those who have recently been in Russia talk of "an evolution towards the Right." This is also a possibility, provided Lenin is able to win support from among those he has persecuted and proscribed. He has already done many surprising things and he may be able to build up a political machine of people who are more loyal to his person than to his original theories. "The drift towards the Right" may continue until the Soviets are no more hostile to the rest of the world than are the occasional Socialist governments of Scandinavia.

There is also the possibility of a violent overthrow and the organization of a new government on the basis of a definite break with the communistic tradition. Those who have recently been in Russia feel that this is the least probable of these three possibilities. But I do not think that we can ignore it. The old sword makers of Damascus, in the days of the Khaliphate were in the habit of etching on the blades they made, the Arabic proverb: "Who draws the sword, dies by the sword." There are a tremen-

dous number of blood feuds in Russia—so many that I find it hard to believe in peaceful evolution, however desirable it may seem.

By whichever road events travel, we may assume that sometime—in the fullness of time—there will be a government in Russia which wants to do business with the rest of the world and with which we shall want to do business. I now venture a prophecy—that government will be broke! There will be no cash in the treasury, no income from taxation, no large imports on which to levy tariff duties and, worst of all, no credit.

Such a new government would have to spend money. Even if the Archangel Gabriel should accept the premiership he could not maintain himself in office without funds. The manifold ameliorations which would immediately be required would be costly. Suppose such a government should arise in Russia this winter. It would be faced by the tremendous expenses of famine relief—and there is no money at hand.

Lenin and his friends, in the first days of their power, before hard times had made it fashionable to talk of giving up their theories and "swinging towards the Right," set out with definite intent and remarkable success to make difficult a capitalistic restoration. They were not nearly so worried over a return of the Tsar as they were by the "intrigues of international financiers." All their financial decrees and policies were intended to erect a barbed wire entanglement against the attacks of capitalism. The dilapidation of capital assets, the dispersal of

the national gold reserve, the discredit which frantic printing presses have cast on currency, the repudiation of all foreign debts, have created a situation of exceeding difficulty for any future Russian minister of finance, who wishes to bring his country again in touch with the common economic life of the world. Without any available cash, a new government in Russia will be utterly hopeless unless it can very speedily get credit.

Financially, Russia is bankrupt. But looked at from an economic point of view, she has better bases for credit than most of the European countries now in our debt. In comparison, Belgium, for instance, is like a skilled artisan who has a steady job and a fixed income. There is a very definite and limited amount which he can save, over the imperative demands of consumption, to pay off the debts he owes. Russia is like one of our frontiersmen, who has just taken out a quarter section and who, by merely cutting down the trees, will double and triple the value of his land and has also a chance to uncover a gold mine or strike oil.

Our own financial history—after the Revolution and the Civil War—shows that the way to pay off debts is to open up new and undeveloped resources. It is in tapping virgin territories, by driving transcontinental railroads, by opening mines, that money is made rapidly and easily. Russia today is in a position very similar to that of the United States at the beginning of our industrial development. We had a vast country and considerable energy, but we were very poor. It was only by borrowing heavily from Europe to get the necessary capital that we were able to speed up our industrial development and get rich quickly. From this point of view, Russia has very much better foundations for credit than the more highly

industrialized countries of western Europe. They are already fully capitalized; but Russia's earning capacity, her ability to produce more than she consumes would be tremendously increased by wise capital investments. Granted an equality in political stability, the undeveloped countries are very much better borrowers than those already capitalized.

This brings me to the suggestion I wish to offer for your consideration tonight. The whole fabric of international finance is threatened by the *impasse* of the Inter-Allied Debt. Any large scale repudiation or cancellation would be a death blow to "credit." If the formal "promise to pay" of great governments cannot be relied upon, we will find it exceedingly difficult to trust each other as individuals. But when we begin to discuss the payment of these debts, we find ourselves in the unfortunate position of being the principal creditor. The only possible way for the European nations to pay us is by exporting to us their surplus of manufactured goods. To pay, they must send us more than they take from us and the prospect is so terrifying that Congress rushes through an emergency tariff to protect our own industries from such dumping. We are very much worried over the fear of what will happen to the theory of credit if they do not pay us, but not so much worried as we are over the prospect of disaster if they did pay us.

Now, assuming for a moment that a government has arisen in Russia which inspires confidence, I suggest that the conversion of the present bilateral obligations into a three-corner credit arrangement might help to start again the wheels of industry.

Suppose there is a French obligation for \$10,000,000 due to us on January 1, 1923. The French cannot pay

except in industrial products which we do not want. Russia, however, needs such manufactured goods—needs them terribly. Suppose we sell that French obligation to the Russian Government in exchange for their long-term note, payable in 1953. The effect would be an immediate stimulus to French industry, because it would give French manufacturers a chance to sell the product of their factories for dollars. It would at once give Russia the purchasing power she so vastly needs. And as far as America is concerned, it would mean receiving a long-term note, underwritten and endorsed by all the undeveloped wealth from the Baltic to the Behring Sea in exchange for a short-term note which we cannot collect.

Suppose a factory in Petrograd needs machinery and its agents discover that it can be procured on favorable terms in England. The Russian Government issues its obligation in our favor for the

amount of the purchase price. Our Treasury then credits the British Debt account with that sum. The Russian importer pays his own government for the purchase in his own currency. The British Exchequer pays the exporter in pounds sterling. Once more, we trade a short-term note, which could be paid only in manufactured goods which we are determined not to receive, for a long-term note which will be paid in the raw materials of Russia.

Many other variations of such a scheme for credit conversion will suggest themselves to you. I believe that there is here a possibility for the future which warrants careful consideration. The difficulties to be overcome are obvious, but at present our whole international financial machinery is stalled. Perhaps in Russia our industrial chauffeurs will find the ingredient necessary to enrich the mixture in the carburetor and start the engine once more.

FOREWORD

THROUGHOUT the war period the cost of living was used as a basis for wage determination. The method in practice revealed many limitations. The members of the Editorial Council concluded that the best thought of the country should be summoned to the query as to what were the fundamental factors determining wages. Were they decent subsistence, an American standard of living demand and supply, productivity, differential productive or relative rating?

The council asked Dr. Thomas Warner Mitchell to lead this discussion. Dr. Mitchell, for many years before his advent into the management engineering profession, had held the Chair of Business Administration in one of our large state universities and was an indefatigable student of economics. He had long been a student of wage determination.

The plan of that portion of this volume which is devoted to bases of wage determination is as follows: In the first section are assembled a few

articles descriptive of noteworthy specific plans of wage-rate determination and adjustment that are in actual operation in a few industrial plants. We earnestly recommend that the reader peruse this section, particularly Mr. Becvar's article, before reading the second section. The latter, devoted to a discussion of basic principles, consists of a detouring article by Dr. Mitchell, followed by discussions from four economists, two leaders of organized labor, and one management engineer. The third section deals with the problem of seasonal and cyclic unemployment.

The value of this discussion is twofold: (1) It re-examines the foundation of the living-cost and living-standard bases of wage determination. (2) It directs general attention to a method of valuing operations and determining wage-rates that, applied rather crudely as yet, is just beginning to be used but may later come to play a very important rôle.

CLYDE L. KING,
Editor.

A Method of Grading and Valuing Operations

By FRANK J. BECVAR*

Production Superintendent of the Clothcraft Shops of the Joseph and Feiss Company

ALL operations in our tailoring departments at the Joseph and Feiss Company are on a piece-work basis. Those in the cutting department are on a premium system.

The process of arriving at a piece rate for any specific operation involves three main steps, viz.: (1) determining the best method and standardizing appliances and conditions; (2) determining the best rate of output that can reasonably be expected of an operative who is adapted to the work and fully skilled in performing it, by the method chosen; (3) determining the value of such work per hour or per forty-four hours when performed at the standard rate. The piece rate is arrived at by dividing the hourly rate thus determined by the rate of output.

For instance, if we decide on the basis of careful time studies that in operation A the standard rate of performance under the specified conditions, with the specified appliances and the like, is to perform this operation on twenty-five garments per hour, and that the value of this work at this rate of performance is \$1.25 per hour, the resulting piece rate is 5c per garment or \$5 per one hundred garments. In like manner, the performance standard on operation B may be seventy-five garments per hour and the determined value of such work 90c per hour, which results in a piece rate of 1.2c per garment or \$1.20 per one hundred garments.

Determining the performance and time standards is a technical process involving detailed elementary time study, standardization and control of operating conditions, appliances and methods, application of delay and fatigue factors and the like, an explanation of which is not important for the purposes of this article.

The illustration of the two operations cited above exemplifies two important problems that are involved in the valuation of an operation. First, there is the relation of one operation to another as shown by the fact that the one is valued at \$1.25 per hour, the other, at 90 cents per hour when both are performed at the standard rate: the former is valued 35 cents an hour or *38 per cent more than* the latter. Second, there is a relation to the general wage level represented by the fact that these two rates are \$1.25 and 90c rather than \$1.75 and \$1.26 or 75c and 54c or any other pair of rates in the same proportion. The same discussion of these two questions with reference to grading of piece work operations will also apply to the other operations for which there are valid production standards.

Among the factors that determine that the rate for the one shall be 38 per cent higher than the rate for the other are the factors of skill and the time required to learn the operation.

THE FACTOR OF SKILL IN RELATIVE VALUATIONS

Skill is something which we all talk about but for which there is no standard definition. And it is difficult to

* *Note.*—In preparation of this article I wish to acknowledge the assistance in presentation given by Dr. Thomas W. Mitchell as editor, and, also, the collaboration of Mary Hennen, Supervisor at the Joseph & Feiss Company.—F. J. B.

define. We consider that it has reference to the following elements, viz.: (1) the character of the work elements that compose the whole operation, particularly the care with which they must be performed in order not to impair the quality of the product, together with the worker's required knowledge and ability not only to judge effects after they have been produced but to *foreknow* them; (2) the complexity of the motions; (3) variation and complexity of the whole operation; (4) the type of operative that is adapted to the operation and the experience that he must have had in the organization in order to be properly qualified for the operation in question. An excellent example of this first element is in hand pressing, where the operative must be able not only to recognize the quality of the effect he has produced, but to pre-judge this effect on each kind or texture of cloth and thereby know how to treat it.

In determining the character and complexity of the motions that compose an operation, and the complexity of the operation as a whole, the careful analysis made by the time study observer is extremely valuable. The experienced time study observer is able to grade the elements from the character of his readings. The greater the number of difficult elements in the whole operation, the higher the grade.

A good comparison to illustrate the meaning of the third element is the comparison of the relatively short, simple and uniform operation of sewing wigans or rectangular silesia pieces onto the bottoms of coat sleeves to stiffen them, with the lengthy, very complex and variable operation of "pocket making" in which the operative must know how to put in all kinds of pockets—flap, horizontal welt, vertical welt with inlaid facing, slanting

welt, crescent shaped pockets, piped edges, patch pockets and the like.

Finally, some operations are of such character that the operative is not properly qualified to perform them unless he knows the work that has gone before or that is to follow. Several years' work on other parts of the garment making process may be required of an operative before he can acquire the knowledge and understanding needed for the operation in question. General experience with operations as performed under the general conditions in the organization may also be essential. Furthermore, even without such versatility, some operations involve a longer training period than others before the operative can come up to the standard rate of performance.

Thus skill, as above defined and judged, and the length of time normally required to bring the operative up to full proficiency in the given operation, inclusive of the time required to learn operations that lead up to it, are the factors that govern the relative valuations of the various operations. On this basis all operations are divided into grades known as classes. The values of these classes progress with a common difference of 5 or 10 cents per hour from the operations of the lowest to those of the highest class.

This difference of 5 or 10 cents per hour between adjacent classes has a practical significance. It is large enough to constitute a sufficient inducement to operatives on one class of operation to seek advancement to the next higher class. With a smaller difference the added earning power often would not be considered worth the trouble of learning operations in the next higher class.

Furthermore, this careful classification of operations enables us to offer prospects of an attractive career by our adopting a policy of recruiting new

employees only in the lowest classes and filling all personnel needs in a higher class by advancement from a lower class.

RELATIVE GRADATIONS FROM GENERAL WAGE LEVEL

Now comes the second question, namely, that of the wage level. We establish starting rates in the lowest classes that aim to afford, for the type or grade of employe wanted, a reasonable subsistence which takes into consideration the prevailing rate in similar industries in the locality and is sufficient to attract the grade of worker wanted in sufficient numbers. This subsistence rate is the employe's guaranteed rate, no matter what his piece-work earnings are. We determine the piece rates in these lowest grades so that when the operative comes up to standard he will earn from 25 per cent to 33½ per cent more than this minimum. This establishes the lowest class. The differential of 5 or 10 cents per hour per class does the rest.

We also obtain a basis of check upon this process at the top of the scale. By the time we arrive at that type, we have employes of such length of service, variety of training and versatility that they compare favorably with the most skilled craftsmen in the industry. Naturally their wage-rates must also compare favorably.

All new operatives are put through a course of training in our vestibule training school and commence work in the lowest classes of operations. This is done whether or not the new-comer has been classed elsewhere as a "skilled craftsman." For no matter how "skilled" he may be under the almost universally prevailing method of conducting work in the clothing industry, he is not skilled in working by our standard methods, under our plan of performance standards, nor is he in-

structed in and filled with the spirit of our plan of organization. However, if he *does* come to us a skilled craftsman his progress will be vastly more rapid than otherwise; he will consume only weeks or at most months in progressing to the grade of operations in which he has been rated as skilled as against years without such previous trade experience.

Any plan of wage-rate determination must, in order to be satisfactory, satisfy the workers affected on two questions that they raise either explicitly or unconsciously, viz: (1) Are the earning rates sufficient? (2) Are the various rates fair, relatively, one to another? The question of sufficiency refers not merely to what is needed for living but to other rates for the same grade of work in the community. The question of fairness involves such ideas as "equal pay for equal work," "more pay for harder work," and the like. We believe that our method of determining and adjusting wage-rates yields satisfactory answers to these questions.

Particularly is this true because we do not impose any determination or adjustment by arbitrary methods. We systematically review our classifications four times a year. We consider every operation and maintain or advance its class according to careful weighing of its contents. We drop an operation to a lower class whenever the operation itself has been changed so as to include a smaller proportion of the more difficult and valuable work elements. We submit to a wage committee and to the operatives affected, our revisions with our reasons in advance of the pay period in which they are to go into effect; this gives the operatives time and opportunity to consider them and protest if they deem the revision wrong. Any such differences of opinion are carefully threshed out with the employes through

their representative and the Employes' Council. Lowering the class of an operation occurs with great infrequency. When this is done, opportunity is sought to advance the operatives so affected to a higher class so that their earnings will not suffer. We have never yet been able fully to man the operations in our highest classes.

In the above we have been discussing basic wage-rates, their determination and adjustment. These are supplemented in our factory by bonuses. There is a daily production bonus which is paid to each operative who maintains his output at the standard rate; a daily quality bonus which is paid to each operative who avoids rejections for defects of workmanship; a daily attendance bonus that is paid to each operative whose attendance for the day is perfect and who reports for work on time at the beginning of the next work day and a daily length of service bonus that is graduated according to the number of years the individual has been in the company's continuous employ.

INTER-FACTORY VALUATION PROCESSES

This process of analyzing, classifying and relatively valuing operations within a factory should also be applicable to operations in different factories and different industries. Two things are requisite in such application, viz: (1) The performance standards must be

determined by similar methods. (2) The analyzing, classifying and valuing must also be accomplished by similar methods. In other words, these processes must themselves be standardized.

Furthermore, when it comes to relatively valuing processes in different factories and particularly in different industries, at least one additional factor must be taken into consideration, namely, the degree of unemployment hazard. Degree of exposure to personal injury and to health deterioration are also factors. The latter may vary within the factory as well as from industry to industry.

In conclusion, while the extension of this process of analysis and classification to the comparison of work in different industries undoubtedly is desirable, it may not be practicable at the present stage in the development of industrial management. In altogether too few plants and industries have there been carried on the careful scientific analysis and study of processes, the standardization of work-content, appliances, conditions and methods and the determination of performance standards that must be the foundation of such classifications. The more rapidly plants in all industries come to this basis of management and analyze, classify and relatively value the various operations *within* the plants, the more rapid will be the progress toward valid classifications and relative valuations of processes *between* industries.

Analyzing, Grading and Valuing Operations in a Modern Manufacturing Organization

By A. B. RICH

The Dennison Manufacturing Company

THE following is a description of the procedure followed by a Massachusetts corporation in wage determination. So much of the plan is dependent upon the company's policies and the conditions of work provided, that it is impossible to judge as to its merits without some portrayal of these two factors. The determination of wages of foremen and other members of the management involves special consideration, so this article will deal only with the plan followed in regard to factory and clerical employees.

The factory itself is highly organized. By this is meant not so much that there is an extreme subdivision of labor, as that a clean-cut definition has been made of the responsibilities of the management, of its various members, and of the responsibilities and the nature of the work of each of its employees.

For the most part production is planned by members of the organization who have been trained in this function of management, thus leaving the foremen and his assistants more free to attend to problems of personnel. As a consequence, working conditions are much more attractive than they are apt to be when the planning of work is left to the foreman and his assistants. In the majority of operations, methods of work have been most carefully analyzed and the details of the jobs are specified, as are also the working conditions and materials. The tools, equipment and materials described in the specifications are so far as possible the best obtainable for the task and the product, and it is "somebody's job" to see that all these requirements are

according to standard, and provided in the place and at the time they are needed. The practice of issuing job tickets with these specifications and instructions for all work done, is accepted as a principle, and is being extended as rapidly as possible throughout the organization.

There are limitations, of course,—in human ability, in the planning operations and in materials provided. There is the "innate perversity of inanimate things"—no one realizes this better than the engineer who makes it his work to reduce these limitations in some measure. But the extent to which work and working conditions may be improved by men trained in research in various fields is far beyond the average practice of today.

This company has built up its business on a reputation for a fine quality of product, and this tradition of quality has influenced general working conditions in the plant to a marked degree. The neatness and comfort of work rooms and the type of people in the company's employ are such as would be expected in consequence of this insistence upon quality during a great many years' operation.

THE COMPANY'S PERSONNEL POLICIES

For the past twelve years this company has been striving to prevent seasonal employment with the consequent "lay-off" of employees during dull periods, and the unemployment due to business depressions. It has also set aside part of its profits to be used as an "unemployment fund." The "unemployment fund," however, is

not considered in any degree so important as the *prevention* of lay-offs because of either seasonal or cyclic depressions in business. This prevention is accomplished by an analysis of the facts, and by planning to balance the demands made upon the factory for the full calendar year through various seasons. So far as is known, there is no one plan that will accomplish this result and it is believed that in every case individual treatment is necessary. In this company this work is accepted as a responsibility of the selling organization, so the members of the management who have charge of sales and merchandising place orders for items of stock goods, devise articles to keep the factory busy during off seasons, increase their sales force to maintain a fair amount of business during a general depression, and in other ways guard against the unemployment and loss of skilled employees.

This company has felt the need of the advice and criticism that its employees may give to the management, and in consequence for the last few years the employees have elected a Works Committee under rules and by-laws drawn up by a committee of the employees (which rules and by-laws were accepted by the management without alteration). The Works Committee, as will be noted hereafter, is always a *potential* and often an active factor in the determination of wages. Furthermore, the presence within the organization of a Works Committee whose responsibility it is to see that the employees, individually and as a whole, have a share in management, is evidence of the spirit of the company and of the reputation it has in the eyes of applicants for employment.

The company believes that each employee has a right to be treated as an individual and not as an undifferentiated unit of a group. Every possible means

is used to determine the ability and standing of each individual in relation to that of every other individual engaged in similar work. This is equally true whether employees are paid on a weekly, hourly, or production basis. In cases where productivity is measured and wages vary directly with production, the payment method is devised to insure the greatest amount of individual variation. An hourly base wage is paid from a minimum starting figure, increasing as the employee's record shows improvement in quality of work, greater versatility (ability to work at a variety of operations), or greater productivity. Increases are made as soon as the records justify them. There are, consequently, no flat rates for any given kind of work, applying indiscriminately to all employees engaged at the same task.

SERVICE RECORDS AND PROMPT RECOGNITION OF ABILITY

Records of employees are kept in nearly every division of the factory. These are in various stages of development; some are more thorough and in more active use than others. For this article it is proposed to describe a division where most advanced steps have been taken in recording the individual standing of employees. Here a service record is kept of each employee, showing attendance, earnings and production, pay changes and rating, average piece earnings, as well as all information concerning the individual, such as schooling, physical rating, previous employment, and the training in various jobs with this company or with others. Each employee is interviewed at least twice a year. At these meetings he is given the opportunity to examine his record card and discuss with the division superintendent or his assistant any particular difficulties he may have experienced. If he has a

preference for certain work, it is recorded, both on the employment record and by cross-index under job heading, so that when a vacancy occurs he will be transferred accordingly. So far as possible, promotions are made in accordance with each individual's desires.

All the various kinds of work are classified, and vacancies in the higher classes of employment are filled from the ranks of those whose knowledge, earning capacity and desires fit them for such advancement. It is held that the personal preference of an employee for a particular kind of work is a very strong indication that he will prove satisfactory in that occupation. The company has in its employ about 2,500 people in the classes covered by this article and during 1921 over 700 transfers were made from one department to another in an effort to meet the desires and needs of individual employees for different kinds of work.

This is entirely aside from promotion within departments where have occurred vacancies which have been filled by advancement. New employees are, in consequence, practically always placed at jobs which are classified as least skilled, and only in the case of a few trades where apprenticeship has been served outside of the company's employ, are new people placed immediately in the more remunerative positions. It should be further mentioned here that new employees are placed under competent instructors, and are trained for the work they are to do until they receive the approval of those capable of deciding as to their fitness for regular production. Even after they have been turned over to the producing departments as accredited employees, their record is followed up until the Training Division is certain that they are satisfactorily located. After this, the follow-up interviews already mentioned tend to direct the employee's advancement

in accordance with his ability and desires. As noted above, changes in individual wages are made whenever the service records show they are justified. All service records are examined monthly to insure prompt recognition of any increase in ability.

Almost without exception, those who constitute the management in this company started at the bottom and worked up to their present responsibilities, having earned their promotion by ability alone. This policy of promotion from the ranks in *all possible* cases is considered to be of the greatest value in its influence on the morale of the organization.

It is believed that if wages offered are higher than those prevailing for similar kinds of work and are sufficient to maintain a comfortable standard of living, a larger number of high-grade people will desire to be connected with the organization offering these opportunities. From such applications for employment, it is to be expected that only the finest types will be accepted, and only the best will be retained.

Wages, however, are not the only attraction of the applicant for employment. The company's reputation for good working conditions, meaning all those conditions which vitally affect the employee—surroundings, instruction, continuous employment, opportunities for advancement or transfer to congenial work, individual consideration at all times—has a considerable influence on the minds of the more intelligent class of employees.

ANALYZING, GRADING AND VALUING OPERATIONS

The first thing done in the determining of wage-rates is to make a careful analysis of the various jobs within the organization. It is the experience of this company that it is not necessary to be continually making

new analyses of jobs. A fairly thorough job analysis was made in 1917, and has been checked up from time to time since that date. When changes in methods of work are instituted, the job analysis is modified to conform with the new condition. A considerable proportion of the operations are very thoroughly specified as a result of time study and rate setting. There are, however, a good many jobs, particularly in the warehousing and shipping departments as well as in the office, and also in what may be classified as service work in the producing departments, that have not as yet been analyzed by the time study and rate setting department. A careful job analysis is required for these jobs also, and the physical and mental qualifications they require need to be definitely indicated.

When this analysis work is completed, the next step is to obtain the "going rates" of wages for similar work. By "going rates" is meant the rates of pay in effect in similar industries in the general locality where the company is situated. This knowledge should be still further supplemented by reference to rates in effect for similar types of work in other parts of the country, and by reference to the cost of living in so far as it can be ascertained through published data. In the past this information has been obtained from:

United States Department of Labor; Department of Labor and Industries (Massachusetts); Union scales; Massachusetts Commission on Necessaries of Life; other industrial concerns.

In studying the relative wage-rates, all the various factors of the job analysis are considered, and great care and attention given to determining to what extent the various jobs within the organization compare with the class of work for which the "going rates" of wages have been obtained. For in-

stance, there are many cases where operations are peculiar to a given industry, to say nothing of the fact that even in any two concerns in the same industry similar work is not exactly comparable, owing to the different forms of organization in effect, and the variations in the method of operating. The employment or personnel manager should strive to *see* the operations and the conditions of work in other industrial concerns whose rates he is attempting to use for comparisons. However, the training or skill necessary, the agreeable or disagreeable character of the work, the possibilities for advancement, the hazards of the occupation, etc., are all carefully weighed in each and every case as the rate is computed. Operations that are paid by a production method of payment are indicated in the different classes of work as well as those paid on an hourly basis. The range of base rates and the class of piece-rate earnings applying to the different types of work are given. Of course there are not as many different classes of wages for those paid on the production plan as there are for those paid on hourly or weekly rates, each employe's productivity placing him more accurately in his particular relation to his fellows. There is, however, a considerable variation in base rates; and a variety of bonus rates applicable to different types of work.

In setting the wages for the different classes of work, it has been found to be a good plan to begin with the simplest types of work and make up rates for these first, and then advance, progressively, to the more difficult jobs.

When wages for each class of work have been compiled, they are considered by the division superintendents in conference. These division superintendents are assistants to the works manager and are responsible for the general oversight of the different pro-

ducing and service divisions of the factory and warehouse. At this conference, a considerable amount of criticism is usually forthcoming, and many helpful suggestions are made which tend to improve the classification and more clearly distinguish the different types of jobs. So far, a final unanimity has always been arrived at before taking any further steps in making up a classification. In every case where a general modification of wages has been made, it has first been submitted to the Works Committee for its approval or criticism.

The outline of wages proposed is made to show the general range suggested for all classes of work; for instance, the minimum, standard and maximum wages to be paid for a given operation, and the minimum apprenticeship period considered necessary before an individual could attain standard. It will be apparent that the actual rates of pay for any given group will include all variations between a minimum and a maximum according to the degree of experience and ability of each of the various employees.

The maximum is published only as a reasonable maximum for the work indicated. There are instances where in practice it is exceeded, but these cases are based on special merit and it is not considered necessary to insist upon this point in reaching an agreement as to general wage levels. The Works Committee have in the past appointed a subcommittee to study the wage classifications, and have themselves compared them with the "going rates" of wages as they have appeared in the publications that the management used; and as far as they have been able to, they have checked them up from personal knowledge or investigation. With comparatively few minor changes, the bases for wages outlined have been accepted.

RECENT READJUSTMENTS OF BASIC WAGE-RATES

The wage bases determined in March 1921 in the manner described represented from 100 to 130 per cent increase (approximately) over 1913 levels. During the spring and summer months of 1921 the cost of living as reported by the Massachusetts Commission on Necessaries of Life began to show definite reductions, and in the latter part of June the management laid the situation before the Works Committee as follows:

The company feels that the time has come when they must reduce their employees in proportion to the general change in wage-rates, but in doing this, in the first place, the company will pay attention to the individual merit of its employees and only reduce those who are not able, by increased efficiency, to justify their present wage; and, in the second place, the range between the present maximums and minimums will be increased, thus allowing even those employees who are now at the old maximum to maintain their present wages if they can show premium ability sufficient to justify the margin by which their wage exceeds present wage standards.

Just how this can best be brought about we do not know. It is something that must be carefully worked out and applied sufficiently slowly so that it can be done with accuracy and fairness. The management is working now on plans to carry out this general policy, which it will submit to the Works Committee when completed, and will be glad to have the Works Committee, either directly or through a subcommittee, work on the same problem and propose plans for the execution of these policies, or make suggestions in regard to their execution.

A conference committee representing both the management and the Works Committee drew up plans by which the adjustment was accomplished in accordance with the policies outlined. The starting wages, or minimum and

standard wages, were in practically all cases reduced to conform more nearly with general wage levels. Maximum rates were maintained. Individual re-rating with the new wage-rates for basis was carried out within six weeks,

and although all had the privilege of questioning their final rating, either directly or through the Works Committee, only 14 out of 2,500 raised any question in regard to their standing after the readjustment.

Bases for Determining Wage-Rates: A Fair Day's Pay for a Fair Day's Work!

By R. M. HUDSON

Manager of Methods and Personnel, Holt Manufacturing Company

IN attaining the equity implied in the above title, there are two major points of view—that of the employer, who is to pay the wage, and that of the employe, who is to render the service. No wage agreement or adjustment was ever mutually satisfactory in which one of these viewpoints was underestimated, or lightly considered by the holder of the other. Industrial history is full of examples which prove the truth of this statement. Times change, but human nature is much the same today as it was when the wage system began. What every worker wants, regardless of his job, position, rank, or station, is an income that will satisfy his needs, his desires and his ambitions. Since it seems that no two of us have identically the same wants, tastes, desires, ambitions, or inclinations, is it any wonder, then, that we have made so little progress toward achieving a formula wherein wages and services are always balanced? This, however, should not deter us from striving to establish a method that will work with greater justice than any heretofore; rather, we should accept the evident lack of such a method as a challenge to do our utmost toward bringing about a more general understanding of what is a fair day's work in every industry or occupation, and what is a fair day's pay for that work.

THE EMPLOYE'S VIEWPOINT

Since the rendering of a service precedes the payment therefor, let us consider the employe's viewpoint first. Work, to him, is primarily the means to an end. It is the medium through which he reaches a definite objective. That objective is first expressed in a living for himself and others dependent on him; after that, in a competence which shall insure him and those dependent on him against poverty and hardship in old age. And while the average worker is thus concerned about the present, and the relatively remote future, he is also interested in getting a certain amount of enjoyment out of life as he goes along. It is these three major interests that have the greatest influence in forming the conception, in each worker's mind, of what is a fair wage for his work. The compensation he wants is not based on the laws of supply and demand, though the compensation he gets, is! Therefore, employes as a class will never be satisfied with any method of determining wages which fails to regard their services as something more than a commodity.

THE PROBLEM CONFRONTING THE EMPLOYER

The employer, however, is not without his own desires, hopes and aspirations, and, no matter how fair-minded

he may be in his dealings with his employes or co-workers, he finds his ability to pay high wages often limited by the demand for his products or services. Since that demand is the expression of the price the employer can get for the products of his plant, it follows that the employer is not the final arbiter of the wages he can pay. It is the ultimate consumer that pays for all the activities involved in bringing to him the article he uses.

The employer is thus in the difficult position of conducting his business so that he can maintain the demand for his products, pay satisfactory wages, and still derive sufficient profits to compensate him for the trials and tribulations of that position.

Consequently, the narrow margin—which results from his effort to pay high wages to labor, give low enough prices to his customers to maintain demand, and also give a fair return on the investment or expenditure necessary to carry on the business—compels the employer to apply scientific principles of management in the conduct of that business. Otherwise, the entire proposition becomes a gamble and, rather than take any chance of loss to himself, the employer will often maintain his prices as high as possible and will pay no more in wages than he absolutely has to—in other words, the current market price—for his labor.

Unfortunately, the latter has been the more common method, and, in consequence, concerted action to raise wages or maintain them after they have been brought to a higher level, has been labor's chief recourse. The future would offer little hope of conditions' becoming any better, were it not for the fact that out of all the recent industrial strife and controversy, managers have come to realize that they must not only have a "much greater technical experience and ability

than was formerly needed," but they must also have sound views regarding the relation of their business to society, as well as a more highly developed sense of social responsibility than was heretofore regarded as necessary. That means the acceptance of the principle that industry exists for the benefit of humanity, and not solely for the enrichment of a few.

MUTUAL INTEREST IN BEST MODE OF OPERATION

Labor, likewise, in recognizing these truths, has the right to ask that the plants in which it spends so much of its time and effort, be well managed; that wastes be eliminated, and the business be conducted on a plane which shall insure to labor that peace of mind which comes only with the continuity and permanency of employment. Enlightened self-interest requires both employers and employes to seek and apply the "one best way" of operating the business from which both derive their wages. Coincidentally, the buying public, through the negative and highly effective process of *not* buying, is gradually asserting its right to obtain the goods it uses at the minimum price, and thus is demanding that scientific methods shall be employed in producing those goods.

No new discovery is needed to provide ways and means whereby labor can obtain what it wants, viz., high wages, or the public obtain its desires, low prices, and still give capital a fair profit. The application of the principles of scientific management, developed by the late Frederick W. Taylor, has proved in several industries in the past decade that these conditions can be met and adequately fulfilled. The increasing number of specific industries in which these principles have been tried and proven, is sufficient evidence of their practicability as bases for

sound management. Definite, precise and exact methods are utilized to achieve the results sought. Action is based on facts, or positive knowledge. Opinion and guesswork, are, coincidentally, relegated to the background. The use of facts as a basis for guidance means investigation, study and research. The truth must be known, and both sides of every question clearly visualized in order that error and injustice may be reduced to the minimum.

SCIENTIFIC MANAGEMENT PRINCIPLES AND WAGE ADJUSTMENT

In no phase of the work is that thoroughness more clearly emphasized than in the wage-adjusting process. Through the years in which the writer has been dealing with the problems of industrial relations, it has been his privilege to be very closely in contact with both employers and employes in industries operating under scientific management principles; consequently, the statements made herein are based on personal observation. In that experience, the most effective methods found for determining equitable wage-rates, have proved to be compromises in which the conditions sought by both employers and employes, as outlined in the earlier part of this paper, have been recognized.

For example, we have studied the existing conditions thoroughly, and charted the prevailing wage-rates of a specific period as the base of subsequent ratings. These periods have been chosen as those of low turnover, minimum industrial strife or disturbance—in other words, “periods when the working community was in good condition, and workers were able to obtain satisfactory wage-rates without difficulty.” The relative increase in cost of living from that period to the current period of wage adjustment was then determined by very comprehen-

sive surveys. The wage-rates of the base period were then increased by the percentage rise in living costs from then until now. The resultant rates were then carefully checked with the wage-rates current in the community for the various trades and occupations found in the particular industry for which the wage adjustment was being determined. Thus, the variation in money wages for those trades from the calculated wage-rate, indicated the several influences which had worked between the base period and the current period, to alter the original relative position of those trades.

In some cases it was found that the actual increase in wages was less than the resultant rates as above determined; whereas, in the same interim, wages for other trades had risen far beyond their original wage as increased by the rise in the cost of living. Strong organization and concerted action, especially among the more highly skilled trades, because of the greater demand for their services, enabled them to obtain the greater increases, but, in so doing, they “killed the goose that laid the golden egg,” for when these artificially high rates were passed on to the ultimate consumer the reaction was both swift and sudden.

ARTIFICIALLY DEVELOPED WAGE- RATES AND OTHER FALLACIES

The fallacy of artificially developed wage-rates has been well demonstrated during the past five years, for, while temporary advantages have been gained by labor when wages have gone up, and by employers as wages have come down, the final balance is governed by the price obtainable for the goods produced by their joint efforts. The complete removal of wage determination from the influence of the law of supply and demand is difficult to visualize, though it may be conceived

that the unanimous recognition by employers and employes of a uniform or highly standardized method of wage-setting might bring it about. Prices, however, would then, as now, be based on the costs of the goods produced, and since the costs include the labor charge, or wages paid in the production of the goods, we would soon be faced with the problem of a market for the goods at the price thus set. If there were little or no demand for them, further production would soon stop, and could be resumed only as the price became attractive enough to induce buying. Thus the relative skill, strength, accuracy, or other elements peculiar to the trade or occupation, would have value only in proportion to the market for them, as reflected in the market for the goods in the production of which those elements of human effort are required.

All occupations vary to a greater or lesser degree in their elementary requirements. These variations range from a maximum of physical ability and a minimum of mental effort, to a minimum of the former and a maximum of the latter. The assigning of weights or relative values to these elements throughout the entire list of occupations, even in one industry, would be an interesting analytical study, but of doubtful value for direct application in the wage-setting process. The relative hazard, or the periodicity of employment, would likewise have small influence in establishing a basis for a wage-rate, for all of these are incidental to the occupation, and the pursuit of any one occupation presupposes a demand for the service represented thereby. That service, however, is a component of a specific endeavor or effort which ends in the ultimate marketing of the product to a consumer.

The principle is no different whether

the example is that of a mason laying bricks, a machinist making parts of a machine, or a physician prescribing for a patient. In the last analysis, the economic law of supply and demand operates to fix the return to all previously concerned, according to the price received by the final vendor from the ultimate consumer. The distribution of that return to each participant, is governed by the extent to which each has contributed to the final thing sold, or the final service rendered. The law of supply and demand is impartial in its operations, and irresistible in its rulings. Employers are no better able to defeat it than are wage earners, though they may temporarily gain an advantage by their respective combinations or other attempts at monopoly control. Current conditions testify, however, to the appalling economic waste from such efforts.

INDIVIDUAL FACTORS IN AN EQUITABLE WAGE SYSTEM

An equitable wage system takes into account the contribution made by the individual worker toward the final object sold, regardless of what the worker's status or relative value may be when he is considered as a member of a certain group or class. Two men may be classed as machinists, yet one will be of greater value than the other to the industry that employs him. The individual differences that make that greater value are as follows:

- (1) The relative rate of productivity or output is highly essential. If both men carry the same base rate, the faster of the two will be more of an asset than the other. It is conceivable, however, that both may be so slow in their performance as to be liabilities, for the costs of the work they do would be sadly out of proportion to the price obtainable for their products. It

follows, then, that certain minimum standards of output must be established for which the base rate is fair compensation. That minimum output is easily deduced from a study of the probable maximum price obtainable, and the consequent maximum allowable cost for each component. Greater output than that standard can be rewarded by a direct return in the wage-rate of a share of the savings resulting from the lower costs effected by that higher productivity. The determination of the standards can be most scientifically accomplished through time studies, made under highly standardized conditions of operation.

(2) The tendency to speed up output, however, brings with it a greater risk of spoilage, and consequently the losses resulting must be shared by the worker responsible for them in a reduction in his individual rate proportional to those losses. It is thus possible for the worker to govern his rate of production so that he earns more than his class rate, and yet have little or no spoilage. He soon learns the relative value of speed and accuracy in their relation to his rate of earning.

(3) The worker who can do more than one particular thing, is entitled to recognition for his versatility; for obviously he is of more value to his employer in that he provides the latter with a more flexible organization than he otherwise would have, and, consequently, the annual labor turnover is lowered, and its expense lessened by reason of the worker's greater ability.

(4) Recognition of the years of connected service of an employe has its value in stabilizing the industry and further lessening the costs of turnover.

(5) Regular attendance likewise is of value, for the losses due to idle machinery or interrupted routine, are thus minimized.

(6) Good conduct and high coöpera-

tion from employes are of appreciable value to an employer, and though some may argue that "virtue is its own reward," and that "custom does not give medals for honesty," the influence of highly coöperative, self-governing employes is very helpful in obtaining a high efficiency of operations.

These individual factors will have varying values with respect to each other, and according to the extent to which they contribute to the success of different enterprises; but they should be recognized in every industry, for to the industry, these factors are the expression of the value of the individual and to the worker, they are direct and tangible means of achieving his desires.

The equating of these factors into a monetary expression is a research problem for the industry which considers them of value. Helpful suggestions as to method are found in the description given in "Taylor System in Franklin Management," by Col. George Babcock. The effect on costs under such a method of rating workers, is to lower them, for the support of the workers is obtained in reducing the wastes that always exist in any plant until the recognition of these factors as a basis of wage payment brings them to light. Conditions which interfere with production, breed spoilage, induce absence, or limit ability, are promptly shown up in the individual performance records. Intelligent managerial investigation and corrective action aid to remove these several obstacles, and the average productivity of the group rises steadily. Costs continue to lessen and the resultant savings permit the higher wages. Quality of output is improved, and as quantity increases, it becomes possible to lower selling prices and thus obtain a greater volume of business. This logically brings about a continuity

of operation that makes for further economies in various ways other than merely those due to a highly efficient and stabilized working force. The beneficial influences of such methods of operation extend beyond the employee, the employer and the consumer, to the community in which the industry operates, and thus the industry renders a genuine service to all concerned.

MAXIMUM COÖPERATION NECESSARY FOR PERFECT EQUITY

But these results cannot be achieved all at once. It takes time, effort, patience and everlasting courage, coupled with broad vision, to work consistently toward the end sought; but the end justifies the means. The period of constructive effort can be shortened only through maximum coöperation between employers and employees. Lack of faith in each other and selfish disregard of

either's point of view by the other, will delay the result indefinitely. There is nothing Utopian in the plan: it is intensely practical, even if it does take relatively more time. But wherever scientific management principles have been scientifically applied it has been demonstrated that "a fair day's pay for a fair day's work" is something more than a slogan. It is a living fact! Only through the prosperity of the industry that supports them both, can employer and employee hope to enjoy that individual prosperity each desires. This means that each gets out of the industry what each puts into it, and therefore, since the maximum of efficiency is gained only as output approaches input, the application of scientific management principles to each industry offers the best means for providing a fair day's wage for a fair day's work.

The Bases Used by Department Stores in Establishing Wage-Rates

By PHILIP J. REILLY

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THE practice of large department stores at present is to use the cost of living as the principal base for establishing minimum starting rates for inexperienced adult workers. The margin in a starting rate above this minimum is influenced at any given time by the demand and supply of workers, and by the desire of a store to attract workers of a given type. Some years ago, the base used almost solely by the large stores for starting rates was the payment of merely what the market conditions required. The change in policy has been effected not only by the general use of the cost-of-living base by state minimum wage commissions in formulating wage stand-

ards for retail stores, but also by the recognition of managers that a store cannot continue to attract and retain the type of worker necessary to render the intelligent service that customers demand unless it pays a starting wage that represents at least the cost of living.

Some stores now pay a starting rate to inexperienced workers that represents a substantial advance over the established legal minimum wage. This is done on the theory that, with labor as with merchandise, one gets in results precisely what one pays for, provided the workers are selected with discrimination. Occasionally a large store in a given city can consistently follow this

practice and select a higher than average type of worker. However, individual stores in large cities that wish to pay more than the customary starting rate frequently meet with a practical difficulty in following this policy. Because of the keen competition among the larger stores, each is alert to see that no individual store solely enjoys the advantage of getting the pick of the applicants for work by paying a premium initial rate. This keenness in competition for workers was especially manifest during the War and immediately after the Armistice. Whenever certain stores were unable to attract sufficient applicants, it was the custom in some cities where competition for labor was keen to "shop" other stores occasionally by assigning professional shoppers to the task of ascertaining what rates were being paid and if the working conditions were especially appealing in the stores which had the most success in securing workers. Therefore, because of this existing business rivalry, when one store starts the practice of raising the general starting rate, the other stores usually follow suit, especially when desirable workers are not too plentiful. As a consequence, this competition usually results in all stores of the same class offering about the same rate.

WIDE ADOPTION OF INDIVIDUAL PRODUCTIVITY BASIS

During the first month of employment inexperienced workers in most stores are paid a straight weekly wage. It is the desire of store managers, however, to establish for each person, as soon as practicable, a definite relationship between the weekly wage paid and the productivity of the worker. Individual productivity, therefore, wherever the nature of the work permits it, is the base that is used by most of the larger stores for determining the

wage of each experienced individual. In the selling positions, productivity is expressed not only in terms of the total value of sales but also in the *number* of sales or transactions that has been made by an individual and the average amount of each sale. The use of the number of transactions and the average amount of each sale as measures of the efficiency of a salesperson has increased during the past two years, and the recent drop in retail prices has made the use of all three of these factors especially valuable in determining wages. This drop in prices has made it necessary to sell 15 per cent to 25 per cent more pieces to approach the same sales figures that were attained before the price recessions.

In the non-selling positions, although most of the workers are still paid a weekly wage that is not directly related to a measured output, wherever it is possible to devise a unit for measuring directly the productivity of the workers, this is established and the wage paid on that basis. For instance, in office work this measuring unit may be the number of credit authorizations made; the number of invoices billed; or the number of lines that has been typed. This productivity basis for determining individual wages has given the most satisfactory result in both selling and non-selling positions. It has resulted not only in stabilizing store forces by rewarding individuals precisely in accordance with their efforts, but it has also enabled store managements to control their pay-roll expense so as to keep it proportionately reasonable. To respond to the public demand that the costs of distribution be kept at a reasonable level, store managers must constantly watch pay-roll expense, since this is usually approximately 55 per cent of all operating expenses.

Where the employe is to be continued for some time on a straight salary the

practice of most large stores is to review the work of the employe after one month's service. The purpose of such a review is quickly to discover the worker who is not making progress and to meet this situation either by additional instruction, transfer to another position or even dismissal. This review at the end of one month is deemed necessary, also, to adjust the rate of unusually promising employes, since experience has shown that it is necessary to make this adjustment a few weeks after employment in order to correct the element of "guess" as to the value of a particular employe contained in the average starting rate. Finally, this prompt review of all new employes with the resulting raises reduces labor turnover. An analysis of turnover figures furnished by a group of stores showed at one time that one-third of all employes who had left their positions had done so within the first month of employment. After following for a year the policy of consistently reviewing all new employes within the first month of employment, the turnover figures of the same stores showed that only one-fifth of all who left did so within the first month.

SELLING COST BASIS

In regard to selling positions most stores base their wages on a selling cost base. This base is the per cent representing the relation of total wages paid in a selling department to the total sales made. In a department selling \$3,000 of merchandise a week with six salespersons whose wages average \$25 a week or a total of \$150, the selling cost is 5 per cent. This per cent is relatively low in the departments where the average sale is high, such as in departments selling dresses or coats and suits. It is relatively high where the average sale is low, such as in the notion and pattern departments. The

selling expense in departments selling dresses or coats and suits will range from 3 per cent to $4\frac{1}{2}$ per cent, whereas in departments selling notions or patterns the wage cost or selling per cent will range from $7\frac{1}{2}$ per cent to 12 per cent. Generally speaking, individual wages are high in the departments where the selling cost per cent is low and they are relatively low where the selling cost per cent is high. The simplicity of the sale transaction in departments like those in which notions and patterns are sold permits the employment of relatively young and inexperienced salespeople at the lower wage-rates. In women's ready-to-wear departments, however, since the sales involve a considerable outlay, most stores endeavor to maintain mature, experienced salespeople who can give customers expert advice and counsel as to the appropriate wearing apparel they should have. This service is being increasingly demanded by customers and can be given only by well-paid discriminating salespeople experienced in apparel selling.

The department selling cost is usually determined on a six months' season basis. At the end of each season, the rates of individual salespeople are adjusted on their productivity showing, precisely in proportion to their having sold at the average department rate or lower. Individual sales quotas are determined by dividing the department rate into the weekly salary of each salesperson. An experienced salesperson earning \$30 a week who sells in a 5 per cent department is expected to sell at least \$600 a week to maintain her position at this wage. Although allowance is made for seasonal fluctuations, if she consistently sells less than this amount for a number of weeks, resulting in a higher selling rate, efforts are made to stimulate her sales so that she can maintain

her position at the average department rate. If she sells, say \$750 a week, however, resulting in a selling cost of only 4 per cent, which would be 1 per cent lower than the department average, her salary is generally increased proportionately so that there will be a consistent and a direct relation between her earnings and the department rate.

The foregoing describes the method of paying and adjusting individual wages in stores employing a straight salary wage plan. Under this plan a salesperson is assured the same income for each week. The diligent worker may not always be immediately paid the exact amount she may earn over and above her salary, pending the adjustment of her regular wage, and to this extent the straight salary plan may be open to criticism. On the other hand, however, under this plan the worker is not forced to make up the deficit when her earnings are less than the salary she receives. In the case of inexperienced workers the earnings invariably are less during the first few weeks of employment, and at certain dull periods even many experienced workers are unable to sell their quota and earn their rate.

VARIATIONS IN THE COMMISSION PLAN

Where salespeople work under a straight commission plan, arrangements are usually made with them for a weekly drawing account that represents about 80 per cent of their earnings. The balance is paid in commissions and these commissions sometimes are paid only once a month, although many stores pay the commissions weekly. Under the straight commission plan, salespeople are paid precisely what they earn. A furniture or clothing salesman working under a 5 per cent straight commission plan may have a weekly drawing account of \$40.

If he sells over his quota and actually earns \$50, the extra \$10 a week is paid the following week or the following month. If, however, he earns only \$35, the regular weekly drawing account of \$40 is paid but the deficit of \$5 is deducted from any commissions earned above his regular weekly drawing account in subsequent weeks, and the balance, if any, is paid as a commission.

The theory of the commission plan is that the direct relation between a sale and the payment of a percentage of the sale in a wage, acts as the most potent incentive for salespeople to sell diligently. It is not favored by some store managements, however, because it is felt that an employe's success in an organization should depend not on sales alone but also on other personal factors; and that a commission plan is unsatisfactory because it does not permit evaluating anything else in an employe but the ability to sell merchandise. When determining individual wages of salespersons, some stores which wish to consider such factors as length of service, coöperativeness, promptness and steadiness in attendance, versatility, loyalty and leadership qualities, feel that these factors can best be evaluated under a straight salary plan. To provide some incentive, however, for increasing sales, it is the practice of a number of large stores to pay a small commission on all sales in addition to the weekly salary. This commission frequently is 1 per cent, and it may represent an increase of 10 per cent to 20 per cent over the regular weekly salary.

Wm. Filene's Sons Company, Boston, after experimenting with various wage plans for several years, now pay all salespeople a straight salary which is based on the average selling cost percentage of the various departments. In addition to this, however, a com-

mission is paid on all sales. This commission varies from one-half of one per cent to one and one-half per cent in the various departments. Usually a bonus percentage of this sort represents about one-fifth of the actual selling cost of a department. Filene's feel that it is necessary to have this commission percentage vary in order to make it possible to pay a commission in departments with a small average sale that will be substantial enough to act as an effective incentive for salespeople in these departments to increase their sales. The disadvantage of paying a uniform percentage of bonus in all departments will be appreciated when it is realized that the average sale in a notion department in many stores will be approximately only 50c, whereas the average sale in departments selling women's coats and suits will range from \$30 to \$65, depending on the character of merchandise that a store carries. In the notion department the average salesperson will handle five or six hundred transactions per week, whereas in departments selling coats and suits the number of transactions per salesperson throughout the year will average only from twenty-five to thirty-five a week. At Filene's, the commission on all sales is paid weekly in a separate envelope, since this method of paying the commission is effective in impressing salespeople with the constant relationship that must exist between the wages they earn and the sales they make.

The plan in effect at Filene's has proved to be very satisfactory to the employees. While it attempts properly to "weight" the sales factor, it also permits a consideration of other factors. This is provided for at Filene's by a periodical rating of all employees on such traits as (1) mental qualifications; (2) technical ability; and (3) personality, health and general value to the company.

AN EFFECTIVE WAGE PLAN IN OPERATION

One of the most interesting wage payment plans for department store workers is that in effect at the Joseph Horne Company store at Pittsburgh. Because this wage plan has been in effect for something over twelve years and has functioned satisfactorily both in dull and prosperous seasons, it has been the object of considerable study by many other department store managements. The plan commends itself because it is simple in operation; it is easily understood by employees; it shows the comparative worth of individuals at all times; and it provides for the adjustment of salaries on an individual productivity basis at regular intervals.

When salespeople are engaged, they are paid the going rate paid by the better class of large stores and the method of adjusting salaries is explained to them. After thorough training, they are given their weekly sales quota and placed at work. After two months their sales are reviewed and salaries are increased if the sales during this probationary period justify it. New quotas are then given based on the increased rate. Thereafter, salaries of the salespeople are adjusted in February and August of each year. The total salaries paid in each department for the six months preceding February and August are divided by the total sales of the respective departments for the same period to ascertain the average cost per cent for selling. The average weekly sales of each salesperson are then computed for the six months and multiplied by the department rate to find what each one has earned. If the sales of an individual warrant a higher salary than she is receiving, her salary is increased accordingly. If she has not earned her

salary, she is not reduced but is interviewed. At this interview her record is shown and she is requested to make an effort to bring up her sales. At the expiration of the following six months if the salesperson is not earning her salary, she is then given a trial in some other department or is dismissed.

In some departments experience has shown that salespeople will occasionally run behind their rate the first six months and ahead of their salary the second six months. In such cases their "worth" is averaged for the year and adjustments made on that basis. In addition to the above salary arrangement, which is based on the productivity of the individual, a sales bonus is paid March 1 and September 1 on individual sales in excess of quotas at the department's average selling per cent for the corresponding period of the preceding five years. Under this arrangement all salespeople are afforded an opportunity to earn a bonus in addition to their regular salaries.

Although a majority of the larger stores base their wages of salespeople primarily on the productivity basis, consisting of the number and the amount of sales in a given period, many stores take other factors into consideration in determining individual rates. Through the use of rating plans which provide for rating employees periodically on such subjects as attendance, courtesy, suggestions, accuracy and co-operativeness, an effort is made to "weight" and evaluate these qualities also in salespeople.

PRODUCTIVITY BASES FOR NON-SELLING GROUPS

The satisfactory results obtained from the use of the individual productivity bases for salespersons' wages has directed the attention of store managers recently to the use of the same basis

for non-selling groups composed of clerical workers, stock-room people, delivery workers, etc. A number of stores through time studies have established a measure of the work in these non-selling positions and used this information to establish standards for a proper day's work. Some stores have based their wages on definite tasks and are paying a money incentive to the workers who surpass them. A large department store in Canada has established in its delivery department a quota of three hundred parcels per driver per day as an excellent day's work. Their drivers are paid a bonus of $1\frac{1}{2}c$ for every parcel delivered above this quota. It is claimed that this bonus arrangement has resulted in their delivery department's being able to take care of a 26 per cent increase in parcels with no increase in force or equipment. In the month of December, when deliveries are heavy, drivers make from \$25 to \$35 in parcel bonuses for the month, although the average bonus earned during other times is approximately \$3 to \$4 a week. The management of this store states that the parcel bonus has saved much expense for them and has in addition promoted harmony and contentment among their drivers because of the additional money they have earned.

A large Boston store pays a bonus to its parcel wrappers for all parcels wrapped over a certain quantity. The tasks were set after the average daily production of each wrapper over a period of months had been ascertained. If the first task is exceeded, a payment of 25c per day is made; for exceeding the second task, 35c per day is paid and 50c a day for exceeding the third.

At Wm. Filene's Son's Company the billing machine operators, who are girls, are paid on a piece work basis of one cent a sales check on all checks

accurately billed to charge customers in excess of a certain amount. Regular weekly salaries for each operator are established. An operator earning \$25 a week is expected to bill 2,500 checks and she is paid at the rate of one cent a check for billing any quantity over her quota. A penalty of ten cents each is imposed for errors.

In a large department store in Ohio the billers are all expected to bill at least 7,500 checks per month, since experience has shown this to be a fair month's work in this store. Bonuses are paid, however, for exceeding this quota at varying rates depending on the quantity up to 75c per 100 for billing over 10,000 checks.

ATTEMPTS TO REGULATE SEASONALITY AND OTHER WAGE FACTORS

One of the most perplexing factors that store managers must keep in mind in formulating any wage plan is the seasonal fluctuation of sales on which wages are based. One quarter of the year's business may be done in November and December and only approximately one-tenth or one-eighth may be done in June and July. A plan that will yield each worker a good salary in months when business is brisk may have quite disappointing results in other months. It is not by any means a simple management task to devise for all departments a plan that will provide a constant weekly wage return sufficient to retain ambitious workers. A wage plan that is too closely related to sales in a store which has marked fluctuations in its sales volume each month, may fail to hold workers in the relatively dull months.

This seasonal fluctuation necessitates not only constant study and manipulation of individual sales quotas but also, at times, a strategic manipulation of the entire store force. This is because a drop in sales will result in

expensive overmanning and overmanning, in addition, will immediately depress the earnings of salespersons if they are paid a wage that is closely related to the volume of business that is done in a department. Efforts are being constantly made by department store managers to flatten the seasonal peaks and valleys, but the seasons of the year and fixed purchasing habits tend to make it very difficult to change materially this problem of seasonality and it will continue to be a bothersome factor in establishing wage-rates that are satisfactory to the employe and fair to the management, both in dull and busy periods.

It is the practice of some stores to make no change in the basis of a wage-rate before thoroughly discussing the proposed change in advance with the group of employes affected, and then making changes only after the conditions have changed under which an existing rate was established. In a few stores, moreover, an attempt has been made not only to pay a fair individual rate but to pay, in addition, a group bonus wherever the payment of this results in developing a departmental esprit de corps. For instance, in the jewelry department of one large store, individual salaries are adjusted on the basis of individual sales but, in addition, a group bonus is paid on all sales made in the department. This lump sum is divided equally among the various salespeople in the department and it has resulted in correcting to some extent the dissatisfaction that existed when bonuses were paid merely on individual sales. If a customer spent considerable time inspecting an expensive ring, but deferred making the purchase on the first visit, on the subsequent visit it frequently happened, during the lunch hour, that, when the customer called again with her mind made up to buy, the sale was

effected and a substantial commission earned, under the former plan, by a different salesperson from the one who had spent so much time in developing her initial interest in the merchandise. Naturally this situation caused the first salesperson to become dissatisfied.

The group bonus plan has equalized earnings in the department to some extent and it has also corrected the former dissatisfaction that was caused by certain salespersons' getting the most sales because of their better stations in the department. It is the custom in some stores to permit the long service salespeople to occupy certain stations that may be especially strategic for making sales.

In a large department store in St. Louis good results in developing store spirit have been achieved by paying a 1 per cent bonus on all sales, provided the business of the store is increased \$100,000 each month. Thus the management shares with employees a portion of its gains from increased sales and assists in emphasizing to the salespeople the direct relationship between a store's ability to pay good wages and an increase in sales.

PRODUCTIVITY BASE FOR BUYERS' SALARIES

The salaries of buyers also have a productivity base. The buyer's salary or drawing account frequently represents 1 per cent or $1\frac{1}{2}$ per cent of the sales of a department for the preceding year. In certain departments, however, and also under certain

unusual conditions, such as when exceedingly competent buyers are engaged to build up weak departments, the buyer's salary may represent as much as 2 per cent or 3 per cent of the annual net sales. Frequently, bonuses of 1 per cent or $1\frac{1}{2}$ per cent are given in addition on increased sales. Of all department store executives, buyers are always in the most advantageous position to effect the most satisfactory salary arrangement with store managers. The technical information of a successful buyer can be utilized in practically any other store. His constant trips to the market enable him to make contacts that frequently lead to better opportunities and the salary offered is usually sufficiently attractive to induce him to go to almost any section of the country he desires.

From the foregoing, it will be clear that store managers in determining buyers' and experienced salespeople's wages usually use as the primary consideration the amount of sales made. In determining the wages of the non-selling groups of store workers, the tendency is to base these on some measure of productivity, such as the number of transactions handled. Wage plans, such as these described, that incorporate individual productivity as a fundamental, wherever it can be fairly measured, and wherever such plans can be equitably and reasonably administered under varying conditions, usually result in high individual wages, a relatively low labor turnover and a reasonable operating cost for stores.

Relative Rating Versus Cost of Living as a Basis of Adjusting Wage-Rates

By THOMAS W. MITCHELL, PH.D.

Management Engineer

THE period that commenced seven years ago and is not yet finished has been a period of test for our ideas and institutions, political and industrial. Particularly has it furnished opportunity for applying, testing, reviewing and revising some of our economic notions.

The World War drew out of industry and put into the military organization between three and four millions of our own young men, not to mention the millions of Europeans. It transferred other hundreds of thousands from ordinary industry to the production of munitions and other war materials. All these had still to be fed, clothed, amused and the like, although they had ceased to produce, either directly or indirectly, their own sustenance. It should have required but a moment's thought to convince us that, unless these millions were replaced by other producers (by women, say) or unless those who remained in ordinary industry were considerably more effective than before, the whole population would have to live in poorer circumstances than prior to the outbreak of the War.

However it soon became apparent that the mass of workers, whether in factories or offices, did not comprehend the situation in this manner. Not only did a large part of the working population go shopping for jobs at higher pecuniary rates and keep up this shopping practice until the day of the Armistice—as if it were money they ate and wore and slept in—but when the inevitable price advances came to increase the pecuniary cost of living,

they demanded the privilege of living as well as they had been accustomed and demanded still higher wage- and salary-rates, which were followed by yet higher prices and living costs. Governmental wage-adjustment boards raised the wage-rates of shipyard workers and others to cover the advance in living costs, only to find in a short time that further price increases had absorbed the pecuniary wage increases, so that they had the job to do over again. Finally, one board came to the conclusion that mere wage-rate increases only added to the cost of living, that no given standard could be maintained by that method, and ceased the practice.

Several years before the World War at least one collective bargaining agreement specifically recognized changes in living costs as an important consideration in adjusting wage-rates up or down. During the post-war period of rising prices, arbitrators in a number of cases granted general wage-rate increases on the basis of advances in living costs. Other demands have been made on that basis, although not granted. In one case the arbitrator stated that workers were entitled not only to rate increases commensurate with the advance in the cost of living; but, as time went on, to still further rate increases for the purpose of *improving* their living conditions. Many representative economists, industrial engineers and other thoughtful persons, also put large faith in the living cost theory.

Now, however, that prices are on the downward swing, while many groups

of workers accept rate-cuts with apparent cheerfulness, there are other large groups who resist such reductions even to the extent of prolonged strikes. There are employers, too, who are following the cost of living theory out to its logical conclusion and are asking such intimate questions as these: What is the average size of workers' families? How many pairs of shoes, of stockings, how many suits of underwear, of outer garments, how many ounces of beef, potatoes, bread, butter and the like; how much bedroom and other room space, does each member of the family need, and what is the cost of these per week or per annum? When employers commence seriously to ask such questions for the purpose of cutting wage-rates, is it strange that workers and their representatives become uneasy and begin to wonder whether after all the living cost theory is a logical and beneficent one?

The present situation furnishes the opportunity to reexamine the living cost theory, to ask ourselves what the function of a standard of living is, through what channel it accomplishes its purpose and, more particularly, whether it is logical and effective as a basis of pecuniary rate adjustments.

LIVING STANDARDS HAVE ROUND- ABOUT NOT DIRECT EFFECT

Anyone who will take the trouble to review the development of economic thought on the subject or thoughtfully examine the facts of industrial operation, must become convinced that the function of standards of living is to control the proportion of population and the labor factor to the other factors in production.

In the production of any commodity or the performance of any operation the various production factors—land or space factors, equipment factors, labor factors and planning and super-

vision factors—may be combined in any one of a *range* of proportions. To each combination there will correspond a rate of output that differs from that of every other combination. Advance in scientific knowledge, which makes possible a more effective application of scientific laws, may increase the rate of output of each possible combination. However it can be shown that without such advance in scientific knowledge and improvement in the industrial arts, there are two sets of proportions at the opposite extremes of a range such that for any set of proportions within the range, if the proportion of any one factor to the others be increased, the total rate of output of the whole combination will be increased, it is true, but *less than proportionately to the augmentation of the one factor*. In other words, increasing the proportion of one factor in the combination within this range subjects the other factors to the operation of a "law of diminishing returns," or the one factor to a "law of diminishing productivity."

Now the total quantities of equipment factors are capable of being increased and are increased as industrial society saves. Likewise, the human factors increase as the population increases. However the increase of the land factor is obviously limited by the fact that the total land area of the world is practically a fixed quantity. The bearing of this upon the welfare of mankind is obvious. If the population increases more rapidly than does the accumulation of the equipment factors, particularly if it increases more rapidly than the advance of scientific knowledge and the effectiveness of the industrial arts, the average rate of production of commodities per person or per man-hour must fall, and the economic well-being of the human factors—and industry is carried on for

the benefit of the human factors—must be lowered. Indeed, barring the progress of science, there is a maximum beyond which the output of the whole industrial society of the world cannot be increased; to increase the proportion of the human and equipment factors beyond this limit is to *decrease* the total output of commodities.

If, therefore, the economic well-being of the mass of people is not to be lowered, it will be necessary to prevent the population and the human factors from increasing more rapidly than the accumulation of the equipment factors and, more particularly, to prevent this increase from outrunning the advance of scientific discovery and invention and the improvement of the industrial arts.

But how are we to prevent the population from increasing so rapidly? Each person will have to do his little part by deferring marriage and limiting his contribution to the increase of population. As one labor manager remarked concerning the "make-work theory" that is said to pervade the ranks of industrial workers, "If work-people are going to limit output, the output to limit is the output of children."

But when shall a person marry and how many children shall he bring into the world? Here comes in the function of a personal standard of living. The more kinds and degrees of his own wants a person puts ahead of his desire for his own home and family, the more kinds and degrees of wants of a potential spouse and each potential child he puts ahead of his desire for a larger family, the longer he will defer his marriage and the smaller will be his personal contribution to the increase of population. From his personal viewpoint he will take more time to acquire skill and industrial effectiveness, to advance to grades of work of higher skill and value, until he can

command an income, and be reasonably sure of maintaining it, that is sufficient to enable him to support himself, wife and prospective children according to the standard he has chosen. The more people adopt high living standards, conduct themselves accordingly and so limit each his personal contribution to the population, the slower will be its increase and the more chance will the progress of science and the industrial arts have to keep pace with and even outrun the increase in population. Indeed it is possible to hold the population stationary, as in France, or actually to decrease it. If a sufficient portion of the population adopts relatively high standards of living and conducts its marital practice accordingly, within limits, *any* standard of living can actually be attained and maintained.

Observe, however, that it is not sufficient, at a given set of market prices of commodities, to say, "Go to! I want to live on a scale requiring an income of \$5,000 a year and insist on having \$5,000 a year instead of \$2,000." That might be effective for one person or a comparative few so long as the mass of people were not doing the same thing; but if the mass of people should attempt to do the same thing, even though they might actually get the larger money income, as happened all over the world during the last seven years, so long as they did not increase their volume of production correspondingly, the only effect would be to mark up the prices of commodities in like proportion. Wage boards can better the living conditions of selected groups of workers for a little while by marking up their pecuniary wage-rates, *provided* that other wage boards or agencies do not simultaneously mark up the wage-rates of the remainder of the working population. In other words, so long as they do not increase the

productivity of industry, *all that wage boards, arbitrators and labor unions can accomplish by marking up wage-rates is to alter the division of the total product of industry among the various groups of workers. However the improved living conditions of the few come at the expense of the others.*

To sum up, raising the standards of living produces its effects *only indirectly*: (1) by causing the individual to put forth the improving effort and take the time necessary to increase his own productivity; (2) by restraining the growth of population, thereby keeping down the proportion of labor force to the other factors, particularly to land. Its effect is a *long run and round-about*, not an immediate and direct effect. Neither wage boards nor legislative nor collective bargaining fiat can accomplish it.

Furthermore, a standard of living is not something that can be chosen by one person or by a wage board for another person. I can choose my own standard of living and I can accustom my children to it so as to be reasonably sure of passing it on; but I cannot effectively impose any given standard of living on any person outside my family. For even though I place the corresponding income at the other person's command, unless he has already chosen that standard for himself, I cannot compel him to keep his family so small as to make the standard effective. A standard of living is a personal affair. Each person must, consciously or unconsciously, choose his own. There is not *one* standard of living; there are millions.

GENERAL WAGE-RATE CHANGES IMPOTENT TO AFFECT ECONOMIC WELL-BEING

This thought that wage boards, arbitrators and labor unions are powerless to better or to injure the economic

well-being of the masses of workpeople by mere general increases or decreases of wage-rates, that they can only *discriminate* in favor of or against one group of workers as compared with the other groups, is so important as to merit further demonstration.

It is possible to benefit or to injure tool makers or glass-blowers or locomotive engineers or clothing workers or any other group of workers or even a number of such groups in this manner so long as the movement is not general. However, any attempt to make a general and universal proportionate advance or recession in wage- and salary-rates immediately defeats its purpose. For, unless such advance or recession is connected with, and accompanied by, an increase or decrease in the rates of production of commodities, it will immediately be followed or accompanied by a like proportionate general advance or recession in the prices of commodities, so that the general advance or recession in wage and salary incomes will be wholly absorbed in a proportionate advance or recession in the money-cost of living. The pressure of the real cost of living will be unabated.

Economic relationships and the operation of fundamental economic forces are obscured by the form and mechanism of our present industrial organization—by the fact that no one person himself produces more than a small part of what he himself uses; by the fact that he works as a small part of an industrial unit and does only a small part of the total work involved in producing the product that his unit produces; by the fact that he does not receive as his share of the product of his unit, a part of that product, but receives, instead, money; by the fact that exchange is not made directly of product for product, or of labor for product, but that, on the contrary, the

worker exchanges his labor for money, his employer takes the product and exchanges it for money, and all the people who receive money incomes exchange the money for the products they want. The fact that all our exchange is thus *indirect*; that there is, and must be, a *medium of exchange*, money,—necessary though this is in our modern industrial organization which is based on the principle of the division of labor—obscures the real purposes of industry and the working of economic laws.

However, if we look through this external mechanism to the underlying purposes and forces, we shall see that it is impossible to improve or lower the well-being of the whole mass of industrial workers by merely increasing or decreasing their money incomes. The only way to effect either is to increase or decrease, in all or nearly all lines of production, the total volume of product. No matter how much money is paid to the masses of the people, with it they cannot buy bread that does not exist; they cannot buy shoes that do not exist; they cannot buy clothes that do not exist; they cannot buy any of the necessities, comforts and luxuries of life that do not exist. And these things exist and are available for purchase only to the extent that they are produced. To increase or decrease money incomes without at the same time increasing or decreasing the volume of output in the various lines of production, must of necessity result in, be accompanied or preceded by, a like proportionate change in the general level of prices—by a like proportionate change in the money-cost of living.

Every dollar of money income, no matter by whom received, is spent in the purchase of goods and services. The goods purchased are either consumption goods, *i.e.*, goods that directly satisfy human wants; or pro-

duction goods, *i.e.*, machines, tools, buildings, etc., used in further production. The exception to this in the form of money hoarding is negligible; indeed, it merely alters the division of the product of industrial society slightly at the time of hoarding and at the time of bringing the money out of the hoard. The fact that not quite all of the money income received during a given period of time—given week, given month, given year—is spent in that period but that there is a lapping over into the next period, is of negligible consequence because of the drag from the preceding period.

That the income that is “saved” by depositing it in savings banks and other institutions is also spent becomes evident if we follow it to its ultimate disposition. For these institutions “invest” it, *i.e.*, buy national, state or municipal bonds or the securities of railroads and industrial corporations. The ultimate receivers of the saved funds spend them either on consumption goods or in the purchase of machinery, tools, erection of buildings, bridges, street paving, road building and so on. Whether spent directly or “saved,” every dollar of money income is spent in the purchase of goods or services.

All goods that are produced are sold. The spoilage of strawberries over the week-end and of other perishable goods may be neglected for the purpose of this analysis. Indeed, any spoilage, any failure to sell goods once produced, represents to some extent a defeat of the ultimate purpose of our industrial structure and activity, which is to provide the greatest attainable abundance of all goods in the proportions in which they are needed for the satisfaction of the wants of all people.

It follows that the sum total of money incomes received during a given period, particularly if that period be a

year, is exchanged against the sum total of goods produced and personal services rendered during a corresponding period. We say "corresponding" rather than "same" period for two reasons. First, we have already shown that a large portion of our current weekly or monthly money incomes are spent, not for the products on which we worked during the week or month in which we earned the incomes but upon the products of our earlier endeavors—earlier by a few weeks, possibly months: the purpose of this week's productive activity is to provide for our wants of next month or next winter: Second, there is a little elasticity in the relationship. In the case of those goods whose production is seasonal, stocks accumulate during the production period and are depleted during the remainder of the year, or consuming season. Also, the stock of consumption goods may be built up during a given year or other comparable period of time; but there is a practical limit to the extent to which this can be done because of the expensiveness of carrying large stocks. In foods and other materials produced by the extractive industries, stocks are accumulated only to the point required as a margin of safety against lean years (and not always to that point) and then simply maintained. Again, in the case of savings, time is consumed in their transition through the financial institutions to the organizations that ultimately spend the funds; furthermore, a large part of this spending waits upon the appearance of its objects of expenditure which are produced to order. Therefore, we say "corresponding" period.

MONEY, PRICES AND GOODS AND SERVICES

This relationship establishes a close correspondence between three systems

of facts; viz.: (1) the volumes of output of the various kinds of commodities and services; (2) the aggregate volume of the [flow of money income and its division among persons with their varieties of wants; (3) the prices of commodities and the general level of prices.

Keep the volume of money income steady and increase the rates of production of the various kinds of goods, and two things happen. First, the money costs of production of these various kinds of goods are reduced; for what are money incomes to the recipients, are money outgoes to the firms and corporations paying them. Consequently, these goods can be sold at correspondingly lower prices and still leave the business as profitable as before.

On the purchasers' side, they have no more money per week to spend in the purchase of all these goods than previously at the smaller rates of production. Consequently, if a greater volume of goods is to be sold they must be sold at lower prices. And competition among rival producers, no one of whom wants unsold goods left on his hands or wants to close his plant and let the still normally profitable business go to his rivals, as well as competition among products under the aforesaid condition of reduced costs, will bring the prices down.

In this case, there is an increase in social well-being. With the same money incomes the masses of people are able to supply themselves in greater abundance. Such being the case there may be a change in the proportion between direct consumption and "savings," in the direction either of a greater proportion of saving or of a greater proportion of immediate consumption, according to what seems the more worth while to the mass of the people, each person deciding for him-

self. Nevertheless there will be an absolute increase in both consumption and saving. Because of the change in proportion, however, the prices of production goods and of consumption goods may not be reduced proportionately, and, in fact, because of a shifting of industry, the total volumes of the two classes of goods will not be permanently increased in the same proportion.

If the volume of money incomes is maintained constant and the rates of production of the various commodities are lowered, the reverse situation is produced. Money costs per unit of output are increased and the goods cannot be sold so profitably, perhaps not profitably at all, at the old prices. On the other hand, purchasers having the same amount of money per week as before and competing for a smaller available quantity of goods, will bid up the prices. And the producers, because of their increased unit-costs, will ask higher prices and be able to get them. Thus, even if money incomes are maintained constant, decreased production means decreased well-being of the recipients of income—of the mass of the people. What probably happens in this unfortunate situation is that the prices of consumption goods, particularly of the necessities of life, rise more than do the prices of production goods, that there is a change of proportion between consuming and saving, saving being reduced under the pressure, and that the expansion of industrial facilities is checked. If the stress is great enough, existing facilities may not even be maintained; railroads, industrial plants and so on are let run down, producing a condition for which industrial society later must pay.

If the rates of production are kept constant and money incomes generally are increased, two things happen.

First, since from the viewpoint of the producing firms these money incomes are production costs, these production costs per unit of product are thereby increased, the products cannot be sold so profitably at the old prices and higher prices will be asked. And higher prices will be paid. For, second, the whole mass of purchasers, finding themselves with more money per week, there being, in fact, no more goods available for purchase with this money, will be able to pay the higher prices for such goods as are available. Competition among this great mass of rival purchasers, each of whom will insist upon getting at least as much as he was getting before, will cause the prices to rise until the whole increased volume of money income is absorbed in the higher prices.

Thus mere increase in the money income of the mass of the people does not cause increased well-being. In this case, since the various kinds of goods are produced not only at the same rates of flow but in the same proportions as before—in other words, since the sum total of economic well-being is not changed—all prices will tend to rise in the same proportion.

In like manner, if production rates are maintained constant and money incomes lowered, prices must come down proportionately. On the purchasers' side, there is less money with which to buy this same volume of goods and there must be a reduction in prices if all the goods are to be sold. On the other side, the money costs of production are lowered so that the producers can sell at proportionately reduced prices and still leave the same proportionate margin of profit; and competition among rival producers no one of whom wants goods left on his hands or an idle plant when it could still be run profitably, will force the prices down.

Therefore, the economic well-being of the mass of the people can no more be bettered or injured by a general proportionate increase or decrease of money incomes unaccompanied by a like change in the general productivity of industries, than can a man lift himself over a stone wall by pulling on his boot-straps. Indeed *the general level of money incomes is nothing and the general productivity of industries is everything* in the economic well-being of the great mass of people.

However, it may be claimed that, while this is true of the sum total of money incomes, wage incomes constitute only a part, not the whole, of this sum total and that a general wage and salary increase will benefit the recipients because it will increase the wage earners' proportion of this sum total; that therefore the wage and salary class will get more, and the profit taking class will have less.

This reasoning would be valid if the increase in the sum total of money incomes were of necessity limited to the wage and salary increases granted—if the wishes, beliefs and motives of land owners and business men, whether farmers, manufacturers, transporters or distributors, were of no weight in the matter. But they are of the same proportionate weight as before and the increase in the sum total of money incomes is not limited to the wage and salary increases. On the contrary, the landowners have the power to advance money rent rates to the point at which they can get the same proportion of the total social product as before; business men have the power to advance their prices so as not only to cover the advance in production costs, inclusive of land and other rents, but to restore their margin of profit to the same proportion as before. Not until the mass of workers simultaneously find means of changing the motives,

convictions and desires of landlords and of business men so that competition among their weakened wills will compel them in a given situation to be content with less rent and a smaller margin of profit than is now the case, will workpeople be able, through a general proportionate advance in their money incomes, to increase their proportion of the total social product. When they attain this power, they can increase their proportion *without* any advance in their wage- and salary-rates.

It is true, indeed, that if the wage earners of one particular business establishment obtain a general increase in week-wage rates without giving a corresponding increase in production and without there being a corresponding adjustment of the wage-rates and production costs among that house's competitors, then the increased wage incomes may be at the expense of that firm's profits. For while its unit-costs are increased thereby, this firm cannot recoup itself by raising the price of its commodity. Competition of rival producers, who are not restricted by like increased costs, will prevent.

However, if all competing firms are subjected to a proportionate wage increase, they are left on the same competitive footing as before the wage increase and can, and will, increase their prices not only to the extent of the increase in unit wage-cost but to the extent of a margin of profit on this cost in addition. In this case, the manufacturers may not be able to maintain the same *proportionate* margin of profit, because, with the advance in the prices of this commodity, the mass of the general public—the people in the other industries—who have not had their money incomes increased, cannot buy as much of this commodity and, at the same time, buy as much of everything else as before.

They must reduce their purchases of something. Probably they will reduce somewhat their purchases of many things; however, the commodity whose purchases are most reduced is the commodity whose price is advanced. The more necessary is the commodity, the less is the effect on its purchases; the less it is necessary, the greater is the effect. So that unless those industrial workers who get the increase spend the whole of it, and even more, in the purchase of the very commodity they are producing (an act that would leave them worse off than before) their increased money income would to a certain extent come out of their employers' profits.

However, reduced volume of sales means reduced production and reduced employment. Advancing the price of one commodity out of its former relationship to the prices of other commodities, reduces the effective demand for it and creates idleness and unemployment within that industry until a transfer of production facilities and working force to other industries can accommodate the remaining capacity to the reduced demand. During this period of adjustment, unemployment will offset, to a considerable extent, the increase in wage-rates, perhaps even reduce the total annual money income of this group. There is such a thing as a group of persons' over-reaching themselves.

However if the wage increase be general, not to one industry but to all industries, then the remainder of the buying public also would have proportionately more money to spend, could sustain the higher prices and not only would the increased cost of the product of the industry in question all be passed on in higher prices, but the higher unit-costs of all other commodities would also be passed on in higher prices. Furthermore, materials

would cost more; machinery and tools would cost more; for these are themselves products. And when the process of adjustment was complete, we should have passed to a general higher price level in which money profits would share proportionately.

While workers cannot increase their proportionate share of the total product of industrial society by means of a general proportionate increase in wage- and salary-rates, unless the volume of production is also increased, neither can employers increase their share of this product, or reduce the workers' share by a general proportionate decrease in wage- and salary-rates. For, as we have already seen, unless production is reduced, prices must come down in like proportion and a 20 per cent less money income will buy the same quantity of commodities as before. The essential thing is that production be maintained undiminished.

Likewise, if industry has come to equilibrium at a given system of rates of production, income rates and prices, there cannot be an arbitrary reduction in prices not justified by increased productivity and reduced production costs without a corresponding reduction of money incomes inclusive of wage- and salary-rates, *i.e.* unless production stops. A reduction in prices without correspondingly increased productivity of industry means reduced gross money income of business men. If the expenses of production are not decreased, this means not only that profits are reduced both absolutely and relatively but that they may even be converted into losses. The latter condition cannot last long. Nor can a relative reduction in profits endure long unless the normal mental attitudes of business men have altered in that direction. Pressure will be put on workers through demands, argument and un-

employment until wage- and salary-rates have undergone a like proportionate change.

While wages cannot entrench on profits by means of general proportionate wage-rate advances and profits cannot entrench upon wages by means of general proportionate decreases in wage-rates, nevertheless it is possible for one person to benefit at the expense of the mass; for one group of industrial workers to benefit at the expense of the others; for clothing cutters, for clothing workers as a whole, for glass-blowers or railroad workers either to benefit at the expense of the mass by means of a wage-rate increase or to be injured by a wage-rate decrease. If the total money income of society is \$100,000,000,000 a year, of which my portion is \$10,000, then my annual purchasing power over the product of industrial society is 10,000/100,000,000,000, or one ten-millionth part of the total, the exact meaning of which depends upon the proportions in which I value the various commodities as compared with the proportions in which the remainder of the whole competing mass of purchasers values them. Double my income, keeping that of everybody else unchanged, and my purchasing power becomes 20,000/100,000,000,000, or 2/10,000,000 part of the total; I have practically doubled my purchasing power at a slight loss to every other member of society. Cut my income in half without changing that of anybody else, and my purchasing power becomes 5,000/99,999,995,000, or 1/19,999,999 part of the total; it has been cut practically in half to the benefit of every other member of society.

The foregoing takes no account of the effect upon production that may be caused by doubling or halving my income. Likewise, if the original hundred billions includes, say, \$416,-

000,000 earned by 200,000 clothing workers, and they can get this increased by 100 millions without there being any change in the money incomes of anyone else, their combined purchasing power becomes increased thereby from 416/100,000 to 516/100,000 part of the total product of industrial society, an increase of nearly 24 per cent in the purchasing power of this small group at an expense of slightly less than one-tenth of one per cent to every other member of industrial society. A like proportionate advance to 3,000,000 workers in the building trades would come at the expense of fifteen times as much or 1½ per cent, to the remainder of industrial society.

We say "expense" because if the wage increase is not accompanied by a corresponding increase in the productivity of these workers, the more purchasing power they get the less is left for other people. We do not mean, however, that such increases may not be justified—that they may not merely correct a relative under-remuneration of such groups of workers as compared with the great mass of other workers, as probably was true of some of the wage increases obtained by the formerly sweated clothing workers.

Therefore, while it is not possible to better the standard of living of the whole mass of industrial workers by a general proportionate increase in money wage-rates, or to lower their standards by a general proportionate rate decrease, and since, therefore, *the cost of living as a basis of wage-rate adjustment is impotent for the mass, unsound in principle and vicious in its operation*, it is possible to give preference to one class of industrial workers or to a few classes as against the others by increasing their wage-rates and holding those of the others down.

This is all that wage adjustments that are made on the basis of living cost do; whether the basis of adjustment is some assumed "living wage" or merely relative changes in the cost of living. They merely give a *preference* to the workers affected as against the remainder of the mass of people.

RELATIONS BETWEEN WAGE-RATES OF VARIOUS OCCUPATIONS THE IMPORTANT MATTER

It may well be that in certain cases such preference is just—that, as a matter of fact, these industrial workers were underpaid as compared with the general mass of industrial workers and that what appears to be a preference merely adjusts the wage-rates of these workers to proper relation to the general system of wage-rates. No doubt clothing workers were at one time so underpaid—the time when they received mere pittance under the piece-work sweatshop system and perhaps even in more recent times. It is not unlikely that department store sales girls have been so relatively underpaid. However, the question in such cases is *not* what is the relation of the money wages to a living wage (such an undefined expression!), not what is the relation between the change in wage-rates and the change in the cost of living. The *real* question is this: What is the relation between the wage-rates of the various occupations in this industry to the general mass of wage-rates? Are these workers underpaid, overpaid or properly paid for the work that they do as compared with the general system of wage-rates for the work that their recipients do?

Answer this question correctly and adjust rates accordingly, and distributive justice as between various groups of industrial workers will be accomplished. Answer it correctly and ad-

just accordingly, and the purpose of "minimum wage" legislation will be accomplished and more than accomplished, *if the affected workers produce a minimum of subsistence or more.* Answer this question correctly and adjust accordingly, and we need not inquire how large a man's family ought to be, how many pairs of shoes, how many pounds of potatoes, of beef, of sugar and the like, he needs. As if industry were carried on primarily for the benefit of landowners or business men and they were to get all the product of industry in excess of what the members of the labor factor need barely to sustain life or in excess of some uniform standard of living that some self-constituted body may fix upon! As if there were or could be a uniform standard of living! As if an attentive, ambitious, highly productive tool maker should be deprived of a part of his product for the benefit either of his employer or of his unambitious, inattentive, relatively unproductive brother tool maker! As if highly trained, highly skilled tool makers should receive no more pay and live no better than the untrained, unskilled worker just entering industry! As if the structural steel worker who risks his life every minute should receive no greater remuneration and live no better than the farm worker who works in comparative safety! As if the coal miner who spends a large part of his life in damp dusty darkness, or the drop forger who sweats before fierce furnace fires should receive no greater remuneration and live no better than a sleeve maker, sitting comfortably before a sewing machine in a well-lighted sanitary factory! We have already shown that a standard of living is a personal thing, effective only as it restrains and stimulates and governs individual conduct. There is not one standard of living among the

workpeople of the world but millions of them.

When a worker feels the pressure of the cost of living (and no matter how large money incomes may be, workers will continue to feel the pressure of the cost of living so long as the productiveness of industry is little more than sufficient to meet the primary needs of the people, so long as the increase of population keeps pace with the accumulation of capital and the advance of science and the industrial arts), he naturally is also pressed to increase his own income. Any group of workers so pressed naturally reacts in the same way and, if organized, makes its demands. This should raise the question of whether this group is properly paid for what it does as compared with the remuneration of other groups for what they do.

ELEMENTS DETERMINING NORMAL RELATIONS AMONG WAGE-RATES

The answer, however, must be sought, not in comparing their wage-rates with the cost of living at any assumed standard, but in a comparison of the wage-rates of the group in question with the mass of other wage-rates, and in an analysis of the various jobs, operations or occupations with reference to those influences or factors that, at any given system of rates, affect the relative supply of workers in these various jobs, operations or occupations. Here we hark back to Adam Smith. Let us consider the production of the various commodities in certain given volumes. With a given technique of production there is a certain system of operations, on each of which is needed, at certain given rates of effectiveness or productivity, a certain number of workers. There is a certain given population potentially available for distribution among these operations. Will workers be available

for these various operations in the quantities and proportions needed? That depends upon the relative rates of remuneration. Some operations require quick, keen intelligence, some do not; some require a long time in which to come up to full proficiency, some can be mastered in a few days; some require a certain background of general knowledge and education, some can be well performed by gross illiterates; some require great strength, some require very little; some require fine precision and close attention, some require much less accuracy and put no strain on the attention; some entail large responsibility because of the loss or damage that can easily result from carelessness, some entail little responsibility; some subject the workers to great discomfort, some are comfortable and agreeable; some subject the workers to health deterioration, others are perfectly healthful; some are dangerous, some are safe; some subject the workers to long seasons of idleness, some offer opportunity for working as continuously as the worker himself is willing to work. And so on. Between the extremes there are all gradations.

Each of these aspects of an operation or occupation constitutes a degree of restraint that prevents the free flow of workers from one to another, or a repelling influence or, perhaps, an attracting influence. At a given system of relative wage-rates the industrial population will, in the course of time, distribute itself among these occupations and operations in certain proportions. If these are the proportions in which they are needed, well and good. At any given arbitrarily chosen system of wage-rates, however, it is altogether probable that the supply of labor would be short of the demand in some operations and in excess of the demand in others. Competition will tend to raise wage-

rates in the one case and lower them in the other. Competition will tend to adjust relative wage-rates so that the demand for labor will equal the supply in each operation. And the final test of the relative accuracy of any system of wage-rates is their relative power of attracting and holding workers in the proportions in which they are wanted.

The proportions in which workers are needed in the various operations and occupations are undergoing continuous change, however, owing to the coming of new employers, the disappearance of old, the expansion of some establishments, the contraction of others, the appearance of new commodities or improved designs of old and the fall of others from favor, the change of fashions and the change of consumption habits. Industry is in a state of continuous flux: equilibrium is never attained. Because of the restraints spoken of above, the working population cannot adjust itself instantaneously to these changes. Hence, even if demand equalled supply all along the line at one time, it would be out of adjustment at another; there would be a relative deficiency of workers in some lines, a relative surplus in others. In the occupations with relative surplus force, market wage-rates may temporarily be depressed below the normals, the rates that will normally be approximated, a condition that leads to high labor turnover; while in others, the temporary scarcity and resulting abnormally high rates may attract more people relatively than can normally be accommodated, a condition that later will contribute to abnormally low rates and high labor turnover there.

These mutually disadvantageous conditions could be avoided if we had some means of determining the normals and could pass directly to them. We know of no way to accomplish or

even approximate these except by conscious analysis of each operation with reference to the degree to which it involves each of the above enumerated influences and any other which later analysis and more mature consideration may find pertinent, rating all operations with reference to each influence, getting for each operation a rating factor for each influence, and combining all the factors for any given operation into a single relative rating factor. Thus a certain operation might be rated unity on the danger factors; 1.5, on strength; unity, on precision and attention; 1.25, on discomfort; 1.3, on intermittency of employment and so on resulting in a combined relative rating factor of $1 \times 1.5 \times 1 \times 1.25 \times 1.3$ and so on, or 2.44 for the five component factors given. For another operation, the series of factors might be $1.05 \times 1 \times 1.2 \times 1.1 \times 1.15$ and so on, or 1.59 for the same five components. Were these the only components or were all the other components unity for each of these two operations, then the relative wage-rates for equal degrees of technical effectiveness would be as 2.44 to 1.59; if the wage-rate for one was 48.8 cents per hour, that of the other would be 31.8 cents.

Such relative rating would be no easy process. It involves painstaking analysis of each operation. It involves invention and definition of units of discomfort, of exposure to injury, of exposure to ill health, of exposure to unemployment, of strength, and so on; it involves a relative valuation of these influences one to another. It involves much that has never been undertaken except to a small extent recently in psychological laboratories. It is not something that can be completed this year. It is not a basis of wage-rate adjustment that is available in the present situation. Yet it is something the results of which are approximated by

every concern that adopts a successful wage scale at which to hire, and by which to advance, workers in the occupations and operations with which it is concerned. And it is something that may be available in the next situation, like the present one, if we commence and carry on the researches through which we must go to reach the goal.

PERFORMANCE STANDARDS NECESSARY FOR EFFECTIVE RELATIVE RATING

Such a relative rating must refer to a definite amount of work or rather a definite degree of effectiveness in each operation or occupation. We cannot effectively rate handkerchief hem-stitching and coil winding as mere names of operations; we must rate a definite degree of effectiveness of performance in these two operations. If stitching rolled edge hems on 100 dozen 9-inch by 9-inch handkerchiefs in 7.8 hours with 24 stitches per inch on a machine speeded at not less than 2,825 stitches per minute is a fair rate of performance, and if winding 390 Ford ignition coils in 12.3 hours under similarly specified conditions is a fair rate of performance, then in relatively rating these two operations they should be rated at these rates of performance. This establishes relative ratings at certain standards of performance. Then, within the operation, the individual worker may be remunerated according to his actual performance; if his rate of performance is 90 per cent of the standard his remuneration can be fixed at 90 per cent of the standard rate for the operation; if 110 per cent, it can be fixed at 110 per cent of the standard rate.

Obviously this involves the careful analysis and study of work and the careful determination of fair standards of performance. Furthermore, to be fairly applied, it involves a kind of management that effectively main-

tains the conditions on which the performance standards are based.

RELATIVE RATING A FORCE MAKING FOR STABILITY

Such a relative rating would operate to stabilize the rates of remuneration for the various classes or grades of operations and occupations. Stabilizing these automatically stabilizes the prices of commodities except in so far as natural phenomena, such as variations of weather conditions in agricultural and animal husbandry, intervene to vary the productiveness of industry, and except in so far as progress in the industrial arts makes industry more productive and lowers the price.

We submit that such stabilization is highly desirable. We submit that such instability as that we have experienced in the last few years is demoralizing and distressing.

RELATIVE RATING NOT A BAR TO INDIVIDUAL ADVANCEMENT

Does stabilizing rates of remuneration mean that the individual worker will strike a level of earning power and go no further during the remainder of his life? By no means. The individual can still progress as rapidly and as far, on the average, as is now possible. The ranks of industrial workers, whether managers or workers at the bench, are continuously being depleted by retirement, disability and death; they are continuously being recruited by others who enter industrial work, mostly by the young persons who come up to the age of self-support. Naturally as persons drop out of the operations of higher skill and value, their places will be taken by advancement from the operations of less skill. Naturally the person who is just entering industry is inexperienced, unskilled and must go into relatively less

skilled and low valued work. Hence the normal course of development of the individual is gradual advancement from work of relatively low value to work of relatively high value.

The thing for workers to insist upon is that these opportunities for advancement to work of higher value, including advancement to all grades of executive work, be offered on the basis of proved merit rather than upon the basis of either favoritism or indefinite impression.

PRACTICAL PROCEDURE TO START RELATIVE RATING AT ONCE

Is it necessary to wait until all this analysis is completed in order to get a working basis for relative rating? We think not. The Franklin Motor Works used the rates for the various occupations that prevailed in 1905 as the basis of their relative rating. The rates of that year were chosen because those seemed to be the rates most

satisfactory to workers as evidenced by the low labor turnover rates of that year. From the viewpoint of workers this is probably the best index to the relative satisfactoriness of rates. If the rates of turnover are the same in the various occupations and operations or if they increase as we go downward from the highest valued operations, but increase gradually (for we hope that those in lower valued operations are less contented than those in the higher valued and seek to progress), this fact may be taken as indicating fair satisfactoriness of such rates.

Such a basis gives us a start. Then, if workers and employers accept the principle of relative rating and are willing to coöperate in putting it into operation, the work of analysis, rating, testing and correcting can start and proceed until in the course of time the data for more satisfactory relative rating accumulate and become practically available.

Wage Adjustment

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THE problem of wage adjustment must be considered from three angles and each of these three requires independent treatment:

1. General wage levels
2. Relative wages
3. Individual earnings

Wage levels, meaning the average earnings of large groups of workers, are governed not merely by laws of supply and demand and all of the variables incident thereto, but also by fluctuations in money values that are produced largely by causes outside the range of wage action.

Relative wages may be considered as the relative levels of earnings in

different operations in the same establishment and, in a broader sense, the relative levels in different localities and in different industries.

Finally, individual earnings should be determined by individual production. In these, more and more account is being taken—although this is often excluded in economic theories—of the ability of the particular shop or the particular industry to pay through natural causes, or the skill of the managerial organization to obtain with the coöperation of the worker, exceptional results.

At the present time it is the general wage level that is uppermost in the treatment of the problem of wages.

COST OF LIVING AND GENERAL WAGE LEVELS

Mr. Mitchell is correct in his conclusion that the actual cost of living cannot be used as a general basis for the fixing of wages, not only because the volume of wages must be governed by production, but also because the varying needs and different sizes of families prevent the fixing of a definite figure as a necessary requirement for earnings. The variation in budgets has been brought to the attention of the writer very forcefully in connection with recent arbitration proceedings.¹ At the same time, budgets of cost of living are useful incidentally in examining minimum wage-rates provided these are considered as real minimums and not, as is too frequent, average wages. They are also useful in comparing wage levels in different localities where living costs vary. In other words, data on cost of living may be considered as one of the factors to be used in adjusting the distribution of the returns to the workers, in preventing a too low minimum remuneration when the supply of workers is largely in excess of the demand, and, in fact, in considering the workers' share of the returns in cases where this is assumed to be the important element.

The increase or decrease in cost of living, on the other hand, provides definite information of distinct value in the adjustment of general wage levels. The cost of all products is chiefly a labor cost. Analysis of cost of building construction,² for example—although materials, such as lumber, brick cement, etc., average some 43 per cent of the total cost—shows labor as

87 per cent of this total building cost because the cost of the materials themselves so largely consists of labor. Other products show similar results. In fact, 80 to 95 per cent of the value of practically all products represents labor. For this reason the curve of the cost of living, made up as it is of the cost of various products, proportioned substantially on the basis of consumption, furnishes a guide to the trend of wages in the manufacture and distribution of these various products and, therefore, one of the bases for wage adjustment proportional to the cost of living prices.

Comparison of cost of living and wage curves over long periods shows the same general trend. The tendency of both is upward from year to year with extreme fluctuations only in such periods as that through which we are now passing, when conditions have been so abnormal. The upward slope of the wage curve should be greater than the upward slope of the cost of living curve because the increasing productive capacity of a man, due to improved machinery and methods and standardization, tends to raise wages and reduce costs, thus giving more and more margin for savings, luxuries and recreation.

SCIENTIFIC ANALYSIS AND RELATIVE EARNINGS

In thus considering the general aspects of the problem, however, the importance of scientific treatment of the features that affect relative earnings must not be minimized. Certain efforts, as Mr. Mitchell indicates, have already been expended along these lines with interesting results. One factor, labor turnover and its effect on the cost of training workers in the various branches of the shoe industry, has been investigated from a practical standpoint so as to provide a basis

¹ *The Rochester Shoe Wage Arbitration* presented before the American Society of Mechanical Engineers, December 6, 1921.

² See diagrams by the Thompson & Lichtner Co. in the *Boston Evening Transcript* May 21, 1921.

for the consideration of this particular element in this particular trade.³ In recent discussions with labor union officials the factors of training and skill have been brought out as elements in the determination of relative wages in the shoe industry. One of the most irritating features in this industry, in fact, to both the workers and manufacturers, are the uneven earnings due to lack of balance in the different departments, in some of which the workers earn relatively too little and in others, relatively too much. The unions at the present time are advocating analyses of fundamental conditions to get at the various factors which affect the relative and actual earnings. The necessity is evident, then, for studies such as are suggested by Mr. Mitchell, for more exact records of accomplishments, for laboratory experiments, and, particularly, for analyses in the shop which, after all, is the most effective laboratory. For this there must be greater coördination between industries and keener layout of the activities of the various manufacturers' associations not merely for investigating price fixing but for comparing methods, collecting facts, and analyzing conditions in the individual shops of the associations.

³ See "Assay on the Boot and Shoe Industry" by Sanford E. Thompson in *Waste in Industry* presented by the Federated American Engineering Societies.

THE FIXING OF THE INDIVIDUAL WAGE

The third division of the problem, the fixing of the individual wage, is as fundamentally important as the other two. Not until more definite standards of production are available, not until the manufacturers and workers alike realize more fully the need of intensive study, of job analysis, of the type of production control that eliminates the delays and idle time of man and machine, not until the wastes in the industry are recognized—and not merely recognized but attacked in scientific fashion—can we hope even to approach a solution of the wage problem. But we have this fact to prove to us the possibility of attaining the goal: certain plants, few to be sure, but representative, have attained notable results in their attempts to solve the wage problem. They have attained these results not through chance, not through fortunate conditions, not through superhuman efforts of a phenomenal executive, but through a study of causes, a presentation of facts and a derivation of standards. And these have been attained, moreover, not by the employer working as an autocrat of the old-fashioned school, but through the coördination and the coöperation of efforts of the employer and the worker.

The Development and Accessibility of Production Records Essential to Intelligent and Just Determination of Wage-Rates

By SAMUEL GOMPERS

President, American Federation of Labor

DR. Mitchell's discussion emphasizes the fallacy of determining wages on the basis of costs of living—a fallacy which labor pointed out in our Denver convention, directing that an effort be made to develop a theory of wages that accords with industrial facts. Such an investigation must come to grips with fundamentals not only of economics but human nature.

A glimpse into the nature and the ramifications of this field is given in Dr. Mitchell's discussion of relative rating. The distinguishing characteristic of the human being is creative ability—ability to record experience and to utilize past experience to make progress. What Dr. Mitchell calls performance standards ought to be of such a nature as to release all the creative energy of the workman and to enable the workman and the management to judge the quality of creative workmanship manifested. What the workman wants is opportunity "to be something," to master forces and materials and to show the power of his mind and the skill of his hand. On the other hand, the necessities of economic conditions of life demand that creative ability be compensated, and the human sense of justice requires that the compensation be in proportion to the value of the work done. A sense of injustice inevitably represses creative ability.

It seems to be a difficult thing to bring many practical business men to understand that the spirit of producing workmen must be uncurbed if production is to rise to full capacity.

To unfetter the spirits of men is the underlying philosophy of our trade union movement. We want to scatter opportunities for use of brain throughout the whole industry. We want an opportunity to master our machines and production processes. Labor, is seeking a wage philosophy based upon these fundamentals.

While those sections of Dr. Mitchell's paper which precede his discussion of relative rating may coincide with the academic theory of static economics, it is not altogether in harmony with the fight which wage earners have been forced to make to increase or maintain their wages. Our national income is computed both in terms of money and of products. I have repeatedly stated there can be no general permanent betterment of standards of living without increased productivity. But we wage earners know that from time to time we have increased our home comforts by forcing a more equitable distribution of incomes. That was worth doing; it meant opportunities for ourselves and our children. We also know that when we force wages up the management at once begins to consider labor-saving machinery and improved methods. Increased productivity follows. Economists have before this tried to discourage us from asking for wage increases by assuring us that all our gains were absorbed by price increases. Statistics have been marshalled to demonstrate lessons in pessimism. However, there are not adequate statistics in the industrial field to demonstrate any theory conclusively.

Not five per cent of managements keep production accounts in such a way as to show real production conditions. Managements seem to feel that such accounts as are kept are for their private information. Now every workman who puts his creative ability into an industry has a right to an accounting in order to know the justice of his compensation. The purchasers of the products have a right to know production costs in order to judge the fairness of the price. There ought to be just as much publicity about the bases upon which prices and wages are determined as about prices and wages themselves. And yet we find steel companies challenging the authority

of a governmental agency to access to production costs!

The prerequisite to intelligent consideration of wage problems is full and complete knowledge of production accounts and distribution of incomes from producing establishments. We need that data over long-time periods so as to determine the results of managerial policies and to determine the curves of the relative allocations of income.

There should be a steady increase in the compensation allotted to creative ability if that ability is to be sustained. I urge as essential to more intelligent and more just wage determination, the development and the accessibility of production accounts and statistics.

Relative Rating Leaves the Main Industrial Problem Untouched

By A. J. PORTENAR

Formerly, Superintendent, Bureau of Employment, New York State Department of Labor

IN our industrial system labor is a commodity, the Clayton Act to the contrary notwithstanding. It is therefore subject to the law of supply and demand, modified by monopoly and gentlemen's agreements on the one hand, and by the myriad variations of individual circumstances and individual temperament on the other. Individual workers being manifestly at a disadvantage, workmen are gravitating to the method of collective bargaining, not because they are then assured of just and properly graded bases of remuneration, but because they are then in a better position for haggling with their employers, according to the methods of the market place, without regard to that vague thing called justice, either in relation to employers or to each other.

This is elementary, as are some of your propositions. For example:

(1) Increases to one class of workers without corresponding increases to other classes of workers is at the expense of the latter.

(2) Increases to all classes of workers without increase of productivity is no increase to any of them.

(3) Increases to some classes of workers without increase of production, if of considerable proportion, lead eventually to decreased consumption and less employment.

There are other statements which are truisms. However, you must not think that I believe they should not on that account be stated: the right way is to begin at the logical beginning. But you have made some general statements which are at least debatable. For example:

The sum total of money incomes received during a given period is exchanged against

the sum total of goods produced and personal services rendered.

That statement is not true, as I shall later show.

Competition among rival producers . . . will bring the prices down.

This is only partially true: there are many artificial obstacles obstructing the unhindered operation of supply and demand—monopoly in any form, for instance.

There is not one standard of living; there are millions.

Here we have a statement technically correct, but essentially wrong. There is, within not very wide limits, a very distinct uniformity of standard of living among large groups of wage earners.

Answer this question correctly (adjustment of wage-rates between workers) and distributive justice as between groups of workers will be accomplished.

From my viewpoint this is a fallacious statement. If it can be done—and it is more than difficult—there would still be the necessity of adjusting return for capital invested in a “just” relation to wages. In other words, this is really the thing we have been fighting about for centuries. How much ought the boss to get and how much the worker? If we produce more, and then fight each other for jobs, the increased usufruct will be kept by the employer.

And the final test of the *relative* accuracy of any system of wage rates is their *relative* power of attracting and holding workers in the proportions in which they are wanted.

This admits of dispute. The use of the word “relative” gives a loophole. But as a dogmatic statement, without a lot of qualifying “ifs” and “buts,” it will not do. There are many factors besides wages which influence selection

of jobs by workers when they happen to be in a position to choose.

Relative ratings.

If relative ratings are the arbitrary product of an engineer's calculations, I should not want his end of putting it over—not on organized workers. In that connection I refer to your reference to structural steel workers, miners and drop forgers. Yet you must know from experience how much the employer cares about either danger or hardship for his employes as long as the “iron law of wages” makes them risk one and accept the other. Of course, a mathematical solution attracts an engineer, but the outstanding defect of his method is that he takes the labor factor and treats it in the same way as he does machines and products.

Performance standards.

In other words, piece work! Now piece work *vs.* time work is in itself so big a controversial subject that I will not start to argue what I cannot finish. The remainder of the article, which is connected with this phase of the subject, could also be argued at length. But I will say this much: If you did succeed in making relative rates of remuneration, you would still have the industrial controversy if everything else was left unchanged.

But you casually put your finger on one of the fundamentals in an earlier passage, where you say:

On the contrary, the landowners have the power to advance money rent rates to the point that they can get the same proportion of the total social product as before.

Here you have concealed a whole volume within one sentence. You know what unearned increment is—how everything that men do finds its eventual and *permanent* expression in increased land values. That is what I

referred to above when I stated that I would show to be untrue your statement that "the sum total of money incomes received during a given period is exchanged against the sum total of goods produced and personal services rendered." People live as well as they can, but there is still an unconsumed increment and that is absorbed in land values. Build a subway or a sewer, a railroad or a factory, the eventual result is the same—a larger productivity and a larger return to the lord of the land. It is no answer to say that one owner sold to another, and the new owner paid the bigger price. The old owner collected his unearned increment, and the new owner charges the price on his investment account and gets a return on it. Maybe he also sells and the process is repeated. If he does not sell, he charges the increased value and gets the return himself. All the while, the more we increase in numbers and productivity, the more we dump into the bottomless pit known as economic rent. Before the employer *as such* and his workers have anything to divide, they must pay the non-productive landowner for the privilege of producing. The more he

gets, the less there is for them to divide on any basis.

I am painfully aware that I have not said anything in all this discussion that definitely assists in the solution of the particular problem you present. The subject involves psychological as well as other factors: status as well as cost of living. For the moment, and until great changes are made, both in the mechanism of industrial society and the psychology of the human beings involved, I can see no better way of adjustment than the way in which it is accomplished now—by agreement between groups if possible, and by fighting for it when we must; voting for it when we have sense enough to abolish the underlying causes of dissatisfaction.

If the results of your "relative rating" and the union scale coincide closely, there will not be any trouble at that moment. If you let us in on the making of it, it will lubricate the process. But my conclusion is that no purely mechanical scheme can have any but a limited success, according to surrounding circumstances, and, under some circumstances, no success at all.

The Requirements of a Policy of Wage Settlement

By HERBERT FEIS

University of Kansas

ALL fruitful discussion must be launched from a point of emphasis, and in the preceding article Dr. Mitchell seems to me to have launched the discussion of wage settlement from the proper one. That is the emphasis it places upon the fact that all incomes are governed in the main by the total volume of the product, and tend to vary with variations in this total; tending to rise when the volume of the product of industry increases, and tend-

ing to fall when the total volume of product decreases. With that emphasis, and the conclusion it suggests, that high real wages are possible only in a country in which the general level of productiveness is high, there can be no quarrel. Once beyond that point of emphasis, however, I am compelled to differ with many of the conclusions he reaches in regard to a proper basis of wage settlement.

The chief differences I wish to make

clear may be approached by distinguishing between two principles, often used in wage settlements, which Dr. Mitchell treats as part of each other and subjects to a critical analysis. The first is the principle of wage adjustment by reference to price movements, which has been widely adopted in recent years. The point of reference under this principle has usually been an index number of the cost of living, and the principle is familiarly known as "the cost of living" principle. The second is the "living wage" principle, which has been applied mainly by state minimum wage commissions to a limited number of classes of female industrial workers. In this principle, the point of reference has been to a calculation of the cost of a hypothetical minimum standard of life, which standard has been variously defined in statutes and by agencies of wage settlement.

EFFICACY OF THE "COST OF LIVING" PRINCIPLE

The first of these—the cost of living principle—has been applied in wage disputes involving all grades of workers. It is invoked in times of changing prices. In practice it has usually been interpreted so as to support such an adjustment of money wages as would make real wages the same as before the price movement. Dr. Mitchell declares in substance that this principle is both ineffective and unnecessary—save, perhaps, as its use may indirectly affect the growth of the industrial population. This opinion he bases upon an analysis of the distributive mechanism under conditions often assumed in economic reasoning—the conditions of perfectly effective competition throughout industry, and of perfectly stable economic motives and habits. In other words, the economic situation he analyses is in a

state of static equilibrium. His conclusion is that each factor of production is receiving and must receive that share of the total product which is determined once for all by that state of relative plenty or scarcity of the different factors which underlies the position of equilibrium. No change in the amount of any one form of income, for example, wages, is possible without an increase in the total product. Any general advance in money wages is, according to his analysis, bound to defeat itself, because it will inevitably give rise to a proportionate rise in prices, rent and profit incomes. Thus, to change wages as the cost of living changes, is an ineffective and useless process.

A QUESTION OF THE DISTRIBUTIVE PROCESS

It seems to me as if this general analysis of our distributive mechanism must be challenged even in periods of stable prices, and, doubly so, if it is applied to a period of changing prices. At no time do I believe that the distribution of the total product moves towards an inevitable or "natural" result. At all times, due to the non-realization of the conditions on which Dr. Mitchell bases his analysis, there is a considerable part of the product which may be secured by any of the claimants upon it: at times of changing prices this part of the product is unusually great. The proportions in which the total may be shared out are variable, not fixed. These proportions are not governed entirely by a simple set of fundamental facts. The outcome of the distributive process—by which phrase we mean the whole series of negotiations and transactions in which the income of groups and individuals are arranged—is constantly being affected by the movements of the human beings interested in it. The

distributive situation is never tending to a position of equilibrium, expressive merely of a simple set of basic facts. On the contrary that outcome is always being influenced by the pressure, perception and plans of those concerned in it.

Thus I would conclude that the proportions of the total received by any and all groups may be, and is, *to some extent* changed by the decisions of wage boards, the activities of trade unions, employers' associations and the like. In a period of changing prices, it may be repeated, the extent to which the outcome may be influenced by such activities is greater than usual.

This amounts to saying that there is a part of the total product which may be ultimately secured by any of the claimants in distribution, depending upon their organization, activity, and public opinion as expressed in wage decisions, statutes and the like. The self-assertion of the wage earners is directed at obtaining this part of the product. Any principle of wage settlement that strongly favors their claims and restricts the claims of others, tends to serve the same end. This result may be effected only indirectly, if at all. A multitude of means are used to bring it to pass. Among them are the principles which the wage earners seek to enforce as the basis of wage settlement. It is impossible in this discussion properly to explain and justify this view of the distributive process. The elements of it may be found in Ricardo. Various aspects of it are presented by Hobson, the Webbs and Clay.

"COST OF LIVING" PRINCIPLE AN INSTRUMENT IN PRICE MOVEMENT PERIODS

In the light of this analysis of distribution the significance of the "cost of living" principle is easily understood.

As many statistical studies stand to prove, in periods of changing prices, wage movements do not follow price movements in any steady or natural proportion. The whole field of distribution is in a flux. Profits may mount to fall very rapidly. The course of wage movement may be very decidedly influenced by the activity and organization of the wage earners and other industrial groups. Any group that remains merely passive will probably receive a smaller share of the product than it might otherwise. In periods of price increase, the wage earners have found the "cost of living" principle a useful instrument to justify their claims; in periods of falling prices, the employers have found it hardly less useful to justify theirs. For public opinion, and official and unofficial agencies of wage settlement have approved it because of the fact that it has produced results not too unjust or unreasonable, on the whole.

The conclusion to which all this tends may be briefly stated. It is that in periods of price movements, due to the fact that the consequences of activity may be unusually real, there will be an unusual outbreak of movements designed to alter wage-rates. Therefore any policy of wage settlement must contain some principle for adjusting wages with reference to price movements. Whether the "cost of living" principle is the most satisfactory one possible, I will not attempt to discuss. Perhaps an index of change of the prices of all commodities produced within the country, rather than an index made up entirely of the prices of the important consumption goods, would be more in accord with fundamental economic relationships (or a compromise between the two).

It may be argued against this view that the price changes are themselves caused by the wage adjustments, and

that if no wage adjustments were made price changes would not take place. But that argument overlooks the plain fact that very many different influences may initiate price changes, chief among which are variations in the total volume of the product and monetary factors. Many price changes occur independently of wage changes. Unless some way is found to nullify the effect of these outside influences upon prices, price movements such as have constantly in the past evoked unusual organized activity will continue to occur; and this situation will have to be recognized by the use of some principle which adjusts wages in accordance with prices.

LIMITED APPLICATION OF "LIVING WAGE" PRINCIPLE

The other principle of wage adjustment that was made distinct from that of the "cost of living" principle can be more briefly dealt with. It is the "living wage" principle. By its very nature it must be but one element in a larger policy of wage settlement. It can be used only as a basis of settlement for the lowest paid groups of workers. It has been a practical method of attempting to bring about such changes in production methods and in the distributive situation as would raise the wages of these groups. If it were embodied in a policy of wage settlement, it would give these groups strong representation in matters of distribution. Its ultimate success would depend in a decisive measure upon the course of growth in numbers of those who are able to do only the simplest and most unskilled work. Combined with other social activities for education and protection of these workers, the enforcement of the minimum wage principle, it is hoped, would lead to a reduction in their proportionate numbers.

The principle has the support of a deep social conviction. Its object would be to improve the economic condition of the lower paid workers, by securing to them, in particular, the greatest possible share of that part of the total product which is indeterminate.

The two principles so far discussed would by no means form a workable or satisfactory policy of wage principles by themselves. They would have to be but parts of a more elaborate policy, which must meet difficulties not yet considered.

ADDITIONAL AIMS OF A SATISFACTORY WAGE SETTLEMENT POLICY

It would have still other results, chief among which I would put the following:

First, it would have to result in the gradual building up of an orderly scheme of relationship between the wages received by the different classes of workers in industry.

Second, it would have to contain provisions by which profit income (using the term to denote a mixed form of income, inclusive of interest) would be kept at a just level, so that the resulting distributive situation satisfies certain general ideas of industrial justice.

Third, it would have to be of such a character that any new forces of industrial change that may win public support could be worked out within its framework.

The first of these aims is at the basis of Dr. Mitchell's proposals of relative rating. The result sought is that brought out by Dr. Mitchell—the establishment of a stable relationship between the wages of different groups of workers, in order to prevent those disturbances in the price level and in industry which result from attempts on the part of *particular* groups of wage

earners to improve their *relative* position in the industrial scale. At present such attempts are constantly made and frequently result in extensive wage movements and many industrial conflicts.

POSSIBILITY OF AN ORDERLY SCHEME OF WAGE RELATIONSHIP

There is no certainty that any such scheme of wage relationship can be established. Its success could be assured only by consent, which in turn would be derived from satisfaction with the results of the policy of wage settlement taken as a whole. It would depend upon acceptance by the wage earners of the ethical doctrine that the interests of them all stands above the interest of any particular group or groups. It may even be said that a spirit of class consciousness would have to supersede the present spirit of group consciousness before any such scheme could be maintained. For unless the strongest groups of workmen—skilled men in essential industries—forbear to use their strength to the utmost at all times in their own behalf, any scheme of wage relationship would be in constant danger of destruction.

The chief difficulty to be met in the formulation of any ordered scheme of wage relationship, would be to fix the relative reward for different kinds of work. As Dr. Mitchell points out, any such scheme would have to be accurate enough to possess the power "of attracting and holding workers in the proportions in which they are needed in various occupations." It would, therefore, necessitate an analysis, on the one hand, of the character of each occupation and the qualities demanded by it, and, on the other hand, of the influences governing the movements of wage earners into different occupations.

A starting point for such analysis would be the existing "differentials" between the wages paid in different occupations at the present time. The scheme would have to permit, however, of the revision of these existing differentials after a study of the pertinent influences (chiefly, as has been said, the character of the various jobs and the capacities and preferences of the wage earners). If Dr. Mitchell's analysis of distribution were so, it could be said that existing differentials were necessarily correct, because of underlying economic facts and they could therefore be made permanent. But he himself rejects this conclusion. And his suggestions in regard to the methods that might be used in determining sound and satisfactory differentials ("relative rating" in his terms) are valuable.

FURTHER CONSIDERATIONS IN SCHEME OF WAGE RELATIONSHIP

In attempting to establish an ordered scheme of wage relationship, two further considerations would have to be reckoned with. First, employers and wage earners would have to be left free to enter into agreements which depart from the general scheme, as long as such agreements are reached by the mutual consent of those directly concerned. For no plan of "relative rating" could possibly be so accurate as to secure to employers the amount of labor of different kinds they required under all circumstances, or so accurate as to prevent wage earners from being sometimes thrown out of employment which they would rather hold at a lower wage. The scheme would have to permit all special arrangements reached by common consent. Indeed, and this is an important matter, the only occasions for applying it should be in settlement of serious industrial disputes.

Secondly, if any scheme of wage relationship is to be successfully established, the general policy of wage settlement will have to keep profits down to what is judged a fair level. For no group of wage earners will contentedly accept its relative position in the industrial scale, if inordinate profits are secured by the owners of industry. Here we touch close upon what has been said before. The maintenance of a scheme of wage relationship will depend upon the decision of particular groups of wage earners to forego the active use of their economic strength to get as large as possible a portion of that part of the product, which is indeterminate. This decision they will persist in only if the general policy of wage settlement assures the wage earners as a whole a great share of the indeterminate part of the product, as signified by the fact that profits do not stand at an unfair level.

NEED TO KEEP PROFITS DOWN TO A FAIR LEVEL

To assure that profits will be kept down to a fair level is the hardest task to be faced in the search for a policy of wage settlement, based on defined principles. One of the principles might be specifically addressed to that purpose. If such a principle is to be consistent with the maintenance of any scheme of wage relationship, it probably would have to take all industry within its scope: that is to say that if wages are adjusted with reference to profits, the point of reference would have to be the profit return throughout all industry. For it is likely that if wages in particular industries are adjusted with reference to profits in these particular industries, the scheme of relationship, of relative rating, would be disturbed. There may be a way in which such adjustments in particular industries might

be carried out without leading to a disturbance of relative rating, but it is difficult to discern. Conceivably, adjustments to profits in particular industries might be kept separate from all other adjustments, and made annually only, but any such plan would present many difficulties. Profit-sharing arrangements in particular industries, or even particular enterprises, could, of course, be entered into without disturbing the general scheme.

On the other hand, no principle of wage settlement which called for wage adjustments with reference to the profits return throughout all industry, could be adopted without calling for important changes in current business practices. For one thing, the enforcement of a standardized system of accounting (at least in representative firms) would probably be required. Only by some such means could an index of profits be secured.

It may be contended that the profits return in industry is not one of the pertinent factors to be considered in formulating a basis of wage settlement. For it may be argued that the forces of competition will keep profits down to the only level that can be called just—that determined by the facts underlying distribution. My dissent from this view follows from my disagreement with the theory of distribution which supports it. It is a simple matter of fact that all agencies of wage settlement in the past have had to give consideration to claims for wage revisions which were based upon the fact that profits in a particular industry were much higher or much lower than they could possibly be if the conditions of static equilibrium in distribution were fulfilled. Exactly the same sort of claims will arise in the future unless the principles adopted go beyond a passive trust in the power of competition to keep profits at a proper level.

NEED FOR ADAPTABILITY TO CHANGING INDUSTRIAL FORCES

Finally, there remains the fact that any principles that are adopted as a basis of wage settlement would have to be of such a kind that they could be modified to take account of changing industrial forces. They would have to be such, for example, as would be compatible with the possible extension of profit-sharing arrangements. Or, to take a further example, they would have to be compatible with a possible future growth of joint industrial councils in industry. They would have to be of such a character that they could be used in connection with a variety of relationships in industry between employers and employed,

and changes in those relationships.

At the risk of repetition I wish to end this short survey of the subject presented in Dr. Mitchell's paper, with the opinion that any policy of wage settlement will have to reckon with a large number of difficult requirements—which cannot be wholly reconciled with each other. No single principle such as that of "relative rating" will suffice to meet them all. The policy would have to be more complicated. It could remain in use only by virtue of a public belief that its results were more beneficial and just than any alternative. It could expect support above all from the growing belief that a continuation of industrial strife on an ever-growing scale is insupportable.

The Effort of the Worker to Improve His Own Condition is Indispensable

By HORACE B. DRURY

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IN the leading article of which this paper is a discussion, Dr. Mitchell calls into question the practicability of attempting by wage award, union pressure, or other means to bring the wages of workers in the various industries up to some "standard of living" which may have been set up as desirable. Unless the amount of goods produced is increased, he reasons, higher labor cost in any one industry or in any group of industries simply means higher money prices, a higher cost of living, and in the end other workers, if not the workers in the particular trade affected, will lose as much as is gained. If all wages go up, the cost of living will be proportionately increased and no workers will benefit. If the wages of only part of the workers are increased, then those workers may

benefit, but all that they gain will have been at the expense of other workers.

This main proposition which Dr. Mitchell has so squarely put before us goes to the very root of the whole question of wage fixing. The question as to whether wage advances are simply a matter of robbing Peter to pay Paul, or a means of really raising the general standard of living is fundamental. It is the view of the present writer that the article under discussion has shown the existence of limits of the most genuine character to what labor can hope to secure by the road of wage increases; limits that are, in fact, so important that the main hope of those who would aid labor must be turned to measures very different from simply holding up wage-rates. But though this is the central truth which ought

to be impressed upon every friend of labor, yet the present writer feels that its statement should be accompanied by certain qualifications. He proposes, therefore, to draw attention to a number of important circumstances under which, in spite of its general tendency to futility, the effort to increase wages may serve an important function and may indeed be of positive benefit to the general body of labor.

ADVANTAGES TO BE DERIVED FROM PRESSURE FOR HIGHER WAGES

The first point that needs qualification, in connection with the general contention that wage increases are always at the expense of the workers, is the assumption that when wages are advanced and prices also go up, the increase in prices is caused by the increase in wages. In the limited field of a single industry or small group of industries, in a period when prices tend to be stationary, that might indeed be the order of cause and effect. But in the case of all the more general increases in money prices—such as occurred during the War, or after the discovery of gold in California, or during the years between 1897 and 1914—the rise in prices was due, not to increased wages, but to factors connected with the supply of money, the demand for goods and the methods of government and private finance. In each of these periods, the increase in prices was bound to go on whether wages went up or not. So that if the wage earner had not pressed for higher pay, he would in general have had to meet the high cost of living without his own wages having gone up as it should.

It is true that the very increase in money prices tends in time to bring the wage level up; so that without conscious effort on anyone's part the forces of competition, explained by Dr.

Mitchell, would tend to raise the money income of workers to meet the higher level of prices. But this increase in wages ordinarily lags behind the increase in the selling price of the goods which labor is making. By prompt pressure labor, in industries where selling prices are rising, can obtain wage increases sooner than they would otherwise come, and without necessarily increasing selling prices more than they would be increased were such wage advances not pressed.

The year 1920 furnishes an illustration of how wages throughout an entire country may for a considerable period be lower than economic conditions would seem to warrant. During a large portion of 1920 industry was apparently demanding more men than were available. Whenever industry is thus running full with a marked shortage of labor, it may be assumed that the wage-rate is for the time being below the real value which employers place on getting work done. Theoretically, it would have been to the advantage of almost every employer as an individual to have raised wages and attracted more labor. But employers fall short in doing this, partly because they do not get around to it, partly because they are afraid of bringing confusion into the labor situation, partly because even at the higher wages it would be hard to get labor, and partly, also, because of a sense of solidarity among themselves. So for many months the general level of wages may remain below the rate which perfect competition would bring about; and at such times a strong effort of employees to better their condition should be able to cause a general increase in both money and real wages, which would, at least in part, come out of profits and not out of living costs.

On the other hand, it is equally possible that falling prices may leave wages

too high for the best interest of employees—including among employees both those at work and those thrown out of work. Strange as it may seem, it is entirely possible that it would have been to the interest of labor in America early in 1921 to have come forward and compelled a general reduction in wages through all the industries, provided, of course, that the reduction did not go too far or too fast; that labor could have been assured that the employers themselves would not, by a failure to re-adjust selling prices, have thrown obstacles in the way of a business revival; and provided, also, that retail dealers would not refuse to pass on to the consumer the reduction in the level of wholesale prices. Indeed, it might have been a profitable course for labor to have followed even if all these provisos had not been perfectly carried out. We are not commenting here on the practicability of carrying through such a program, but simply wish to point out that falling prices may leave wages above a serviceable level, just as rising prices may leave them too low.

KEEPING WAGES IN LINE WITH RISING PRICES

In discussing labor's policy towards both raising and lowering wages and prices, it must be remembered, therefore, that the general level of prices is for the most part determined outside of the field of labor. It is perhaps going a little too far to say, as was intimated in the main article, that labor is not concerned at all as to whether the general level of prices is high or low. For the absolute level of the purchasing power of money is of real significance when it comes to buying goods from abroad; it is also important that the absolute level of money incomes be what it should be in view of the quantity of money and the cost of producing gold; it makes a great deal of difference

to the workers as to whether the value of money is stable or trends upwards or downwards. Labor, accordingly, like everyone else, does have a real, though it may be an unappreciated, stake in the question of a high or low level of prices. But whatever may be the wishes of labor in the matter, the fact is that the general price level moves for the most part in an orbit of its own, pulled about somewhat by the demands or lack of demands of labor, but, on the whole, finding its successive levels in response to deeper forces. If labor should refrain from advancing the wage-rate when conditions invite, the probability is that its self-denial would redound mainly to the benefit of employers, or speculators, or traders. If labor does succeed in getting an increase in its money wages, it is probably more from these classes that the profits are taken than from any group of consumers.

This is the situation in the rough. In actual practice, of course, things are much confused during a period of either rising or falling prices, and in many specific instances the demands of labor would doubtless hasten the raising of prices. But in all cases the tendency to a rise in prices would already have been there; in many cases the rise would already have taken place; and in practically all cases it would come eventually, even if labor tried to hold its own wages down. Usually the increase in wages which labor could gain in this manner, without tending to start a fresh rise in prices, would be very much limited. But during the war period and the two years following, the difference in the prosperity of labor, depending on close, as contrasted with loose, attention to the matter of keeping wages in line with rising prices, was bound to be enormous. Indeed, it was in no small measure because of the failure of labor and, indeed, the

inability of labor to meet this situation in any carefully planned way that there arose, on the one hand, so large a volume of war fortunes, while, on the other hand, there was a considerable impoverishment of certain groups of workers.

The chief other respect in which it is necessary to qualify Dr. Mitchell's contention that an increase in money wages necessarily comes back in higher living costs, has to do with the possibility of workers' in this plant or that or in this industry or that winning for themselves a part of what may be termed differential profits.

THE POSSIBILITY OF DRAWING ON DIFFERENTIAL PROFITS

One of the outstanding characteristics of modern industry is the fact that there is a wide difference between the efficiency, the business luck, or, perhaps, the special privilege enjoyed by different firms in the same industry, or perhaps for a period of years by a whole industry in comparison with other industries. These differences of merit or fortune constitute the real reason why some companies make a large amount of money while others are no more than able to pay their bills. Differential profits are a chief explanation of the wealth of the millionaire, and an important source of all those inequalities of income which separate those who live well from those in moderate circumstances. The wealthy, of course, are so few compared with those who are not wealthy that a division among all the people of all the property of the country would not bring the universal enrichment that some picture. Nevertheless, the differential profits of business are large enough so that if labor participated in them, it would mean for many of the workmen affected a substantial increase in individual income—not one hundred per cent on

the whole or anything like that, but yet enough to make a good deal of difference in a man's outlook. Indeed, differential profits constitute almost the only fund out of which it would be possible permanently and materially to increase labor's share in goods.

Now the whole argument in the leading article regarding the impossibility of increasing real wages unless the amount of goods is increased, rests on the assumption of a uniform wage-rate for all plants. Our author holds, in accordance with the theory that has been accepted in economics since the days of the founders of the science, that the rate which will be paid all labor is determined by what the less efficient and less successful plants are able to pay—those plants which are barely able to make ends meet and yet whose product seems to be needed to fill the demand for goods. If wages are raised above the productivity of labor in these less efficient plants, then, it is held, these marginal firms will be forced out of business, the supply of goods will be lessened and prices will rise. Or, more likely, the higher level of wages together with the shrinkage in the industry will bring a surplus of labor which will of itself bring wages down again. In any case, the wage-rate for an entire industry and for all industries is set at what those plants which just manage to survive are able to pay, the more successful plants needing to pay no more. The whole of the differential earnings, all the superior yield of the plants which do well over those which do poorly, goes to the owners of the successful plants, or to others who control property rights. There is no way by which labor may increase its share.

Under conditions of perfect competition, the writer can see no weakness in this line of reasoning. But when we speak of trade unions and of boards

of arbitration we are speaking of forces which are more or less departures from competition of the traditional type. The traditional economic theory also assumes that complete control, in legal theory and in actual practice, is in the hands of the owners of an industry, and that any unusual profits go entirely to the owners and not to the men who put their lives into the industry, excepting that labor of the higher sort which is connected with management and perhaps ownership. But it is obvious that if we could conceive of an industrial practice in which it was recognized that profit accrued to labor in the form of higher wage income as well as to capital in the form of higher dividend income, or if it were possible for labor to invent forms of organization which were strong enough to take a larger return from the more successful plants or the more fortunate industries, or if it were possible to think of society as developing a type of arbitration board which might take these matters into consideration in its awards—then, under any of these three conditions, there is open a possibility of labor's, in many concrete instances, increasing its wages in such a way as would reduce differential profits but would have no influence on selling prices.

CHEAPER GOODS MORE EFFECTIVE THAN SHARING OF DIFFERENTIALS

The present writer is inclined to believe that, on the whole, the solution of the problem of a fair division of the proceeds of industry should not come by the method of simply transferring to the workers in the more profitable plants or industries the gains that now go to property owners. He believes it would be much more logical and more just all around to work for the leveling of profits and their distribution in the form of cheaper goods. Cut out all

forms of favoritism for those who now have more than their share of fortune; increase the efficiency of that preponderate section of production that is now carried on below a reasonable standard of efficiency, and these measures will in themselves tend to prevent the accumulation in the first place of income that does not arise from labor or come as a reasonable return upon investment. But this is a task which will take many years and never be perfectly accomplished. In the meantime the unevenness in the returns to different enterprises remains. Many people receive income out of proportion to investment, or to the quality of enterprise shown, or to service rendered. Is there any reason why it should be laid down as a law that labor in these industries or plants should be held to the common level for the country? It is more in line with the spirit of the times to give labor at least a measure of interest in the industry.

MONOPOLY IN DISGUISE

In the special case of some of the large scale industries where there is an approach to monopoly, the writer sometimes wonders as to whether it is in reality a true portrayal of things, to think of selling prices and labor costs as finding their equation and determining one another in the less efficient plants; or whether it would not be truer to consider that the large companies who alone operate by efficient modern methods determine more or less arbitrarily what selling prices and wages shall be and limit their production to an amount consistent with the selling price established; and then, because there is so substantial a margin between cost and selling price, other companies with antiquated organizations or methods spring up and operate at the margin. If we may distinguish the "real industry" from

the "pseudo-industry," the real industry has no marginal plants at all but in all of the plants there is a surplus of selling price over cost.

The entire production of the country could be and should be supplied by plants working on the high level of efficiency. But because there is no real competition, because the best raw materials, or the only modern methods, or the cream of the country's technical skill is massed together under the control of one well-knit group, so as to give in effect a monopoly, it is possible strictly to limit that production which is on a modern scale; the pseudo-industry is allowed to spring up because it preserves the appearance of competition and because it is consistent with the perpetual collection of large profits by those who have the real control, on as large a part of the business as they dare carry on. The establishment of this marginal production is, considering everything, a highly artificial device; it does not remove the fact that the industry — that is, the true industry — is a monopoly, and that there is no sound reason why wages should not be much higher, or else the selling price of the product much reduced.

The writer does not know that he is perfectly describing the conditions in any industry. But in view of the dominant position occupied in so many national or local industries by a well-knit group of low-cost companies, who perhaps have all the best supply of raw materials, or the best methods, or the best organization, it is possible that we have in this country much monopoly in disguise, as we certainly have high differential profits. If this should be so, then an insistence that wages should be what the capable modern companies could pay, and a repudiation of the principle that no one should pay more than could be afforded by those unsoundly operated plants with which

a sane national industrial policy would dispense, might give to labor a very substantial volume of income that does not now pass into its hands. As already indicated, the writer believes that the best plan is to work for the leveling or regulation of monopoly gains rather than their distribution in wages. And doubtless the forces of law and inroads of competition are ever working in that direction. But in the meantime the problem just described is a real one and might be assailed by measures which would give temporary relief as well as those which would mean permanent solution.

SURGE OF WORKERS AGAINST WAGE-RATE THE FOUNDATION OF THE PRESENT SYSTEM

Turning from these special cases to the more general situation, perhaps the most insistent reason why workers cannot under our present system abandon concern over the level of their pay is because society relies on the continual surge of groups of workers against the wage-rate—and the counter resistance of those who oppose wage increases—to fix in all its details the wage-rate which shall actually prevail. Dr. Mitchell emphasizes the importance of establishing a right relation between pay in different industries and especially for different types of workers. Those relations ought in time to be worked out on a basis of justice. But at the present time the very foundation of our whole system of distribution rests, not on any reasoned correlation between merit and desert, or between need and satisfaction, but, so far as rates have a degree of moral or scientific sanction, primarily on an idea of what is right, based on rates as they have actually been worked out during a long period of economic struggle. We may say that a manager is worth ten times as much as a machinist and

not five times; that a policeman is worth twice as much as a school teacher and not half as much. But if we think either of these are the proper relations it is only because that, roughly, is the way it has worked out. If forces had worked out a little differently, managers might receive a hundred times as much or only twenty-five per cent more than machinists, and policemen might be the very lowest in the economic scale or paid like prize fighters; and we should have adjusted ourselves to the idea of any of these ratings as appropriate. Until the world adopts some very different basis for the determination, not only of wages but of other forms of money income, the real reason why some men are to be rated high, and, especially, the real key to discovering the proper degree of differential, must be sought for, not simply by studying psychology, or physiology, or the details of men's work, but by noting what peoples' labor can actually command in the competitive market.

But the healthy functioning of the competitive market depends on strenuous efforts being made on both sides, the one to raise incomes and the other to depress expenditures. Suppose it were true that the raising of wages beyond a certain point defeats its own purpose. How is the worker or employer to know where that point is, until after it has been reached? Even in the case of so comparatively simple and fundamental a matter as the general level of prices, economic science cannot predict the course of prices with even approximate certainty, much less can statisticians, or employers, or workmen tell what will be the price for particular commodities, or what industry can afford to pay this or that type of worker. Even though it were known that the gain of one worker would come out of the pocket of another, a perennial concern on the

part of each worker or class of workers over the size of his income would serve much the same useful function in stabilizing and adjusting prices that the labors which accountants undergo in balancing books to the cent have in keeping the wheels of business from getting fouled.

But the truth of the matter is that in a great host of concrete cases, both those large cases where wage-rates are adjusted to new price levels, and, more particularly, in the innumerable small cases where the workmen in single plants or individual workers are re-rated, the increment which the worker adds to his wage, or the loss that he takes, goes back no farther than to his immediate employer. It is only in the long run and remotely that workers take from one another. While a general program of wage advancement affecting all workers would oftener than not benefit no one, the constant guerilla warfare, if we may call it such, the persistent worrying up of wage-rates for this individual or that one or this group of workers or that, the process of bringing individual remuneration all along the vast, intricate line up to the level that in the particular case is possible—such detailed pressure should give workers as a whole a substantially larger volume of real income than would the opposite policy, under which each worker implicitly relied on the general principle that his wage made no special difference because it would all come back in lower living costs.

In passing it should be observed that even if wage increases caused a proportionate increase in the cost of living, yet the wage earners of whom we are speaking here, the people whose wages it is proposed to increase or not increase by union action or arbitration boards—these really constitute, not only merely a portion of the total population, but

indeed, only a portion of the actual workers. Theoretically, farmhands (and farmers too), clerks, professional men, and unskilled workers of every degree are all labor. But many of these people do not consciously identify themselves with the working class. As the years go by and the capitalistic system spreads over more and more of the field, all classes of workers come closer to being one group. But such an amalgamation of classes is far from being complete. So it is conceivable that glass blowers and tool makers and the whole range of labor—in the ordinary, practical usage of that term—might win wage advances, and the cost be borne in part by the farmer and draftsman and the countless other workers who are as yet only imperfectly linked in that fellowship of labor whose group interests we are here weighing. Doubtless many leaders of labor would hesitate to approve of a method of advancement which manifestly depended on taking from these unassociated groups; but complete candor compels us to recognize that the wage earner—he who belongs to Labor spelled with a capital letter—is not yet so dominant a factor in society but that his status might be considerably improved by what could be transferred from other groups.

THE SCIENTIFIC ESTABLISHMENT OF WAGE-RATES

The circumstances which have been mentioned, taken singly or all together, do not alter the fact that the raising of money wages falls far short of being the fundamental solution of the labor problem. They do help to explain why it is often necessary and beneficial to the interests of labor that labor make positive effort to increase its wages. Competition does not work so perfectly, nor is the power of organized action so unavailing but that in many con-

crete cases activity by labor or by arbitration boards might succeed in raising wages, without its causing a corresponding increase in the cost of living. It has, moreover, been pointed out that in the mixed-up world in which we still live, it is not easy to say how wages could be determined with any degree of precision without making use of the underlying desire and effort of each class of workers to better its own prospects. Nevertheless, when all is said, it is believed that Dr. Mitchell is right in urging against any more than the most necessary attention's being given to the money level of wages. It is believed that as the years go by, attention should be concentrated more and more on the establishment of correctly adjusted as opposed to merely high wages.

PRACTICABILITY OF AN OBJECTIVE STANDARD OF LIVING

Our chief ground for difference with the author of the leading article of this volume is on the matter of the way in which these correct wage-rates, in particular the general level of wage-rates, should be ascertained. Dr. Mitchell grounds his whole plan upon a rejection of the standard of living idea. He regards the standard of living as something that varies with each individual according to the size of his family, his ideals with regard to living, etc. It must be admitted that there is a subjective standard of living which is necessarily of a variable quality. But there is also an objective standard of living, which might more accurately be called a standard of purchasing power, which is something tangible and which could be fixed very definitely for every man and woman. Our author's idea of this objective standard of living, or of purchasing power, would evidently be that it, too, is something that is of no value; for

what is the use of setting up a standard of living when industry can in any case produce only so much goods? But that all depends on the kind of standard of living one has in mind, whether it be an ideal standard that persons would like to attain, or a standard which study shows is a practical standard for actual application. Perhaps not every one will agree with this definition; but the writer's view is that the standard of living which is useful in wage determination is not some artificial standard that people say ought to exist, but rather one which should be regarded as the resultant, the product of the existent stage of industrial development.

There is no definite minimum wage that men and women must have to live; there is no objective minimum that they ought to have in order to live a full and rich life. The standard of living is a variable. But it is possible in any country at any degree of industrial efficiency to say that such and such a standard is attainable; that industries that do not support it are subnormal and parasitic. And, if care be used in setting up the standard, it should be possible to establish a standard above that which prevails in many lines of work but not out of possibility of attainment by every necessary industry. The correct standard of living upon which the general level of wages should be based is the highest possible minimum that the industry of the country as a whole can afford to pay and still run sufficiently fully and successfully.

WAGE REVISION TO MEET CHANGES IN LIVING COSTS

This conception of a standard of living, and more particularly of the cost of living, is of special practical importance when it comes to making allowance for changes in the cost of living due to changes in the value of

money. Dr. Mitchell is perhaps right in pointing out that in war-time people must consume less; so that it is unreasonable to expect the buying power of people generally to keep pace with rising prices. Wages could be allowed to keep pace with increases in the cost of living if people could be trusted to curtail their expenses drastically and invest in government bonds; and possibly in the case of the industries which must be expanded, or in the case of groups of labor which have been underpaid, it may be advisable or just to increase incomes faster than the rise in the cost of living. But, generally, the coming of a serious war—which calls not only for suspension of peacetime capital construction, but for a diversion of labor from making consumption goods to manufacturing munitions—could probably most easily be handled by planning for a decline in the real incomes of labor and people in general.

But when the author speaks, apparently with disapproval, of the manner in which during the post-war period arbitrators granted wage increases on the basis of advances in living costs, it would seem that he is running counter to his own fundamental principle. An advance in wages that merely takes care of the increase in the cost of living due to a decline in the purchasing power of money, is not a disturbing of the existing level of wages but a means of preventing the existing level from being disturbed. Those persons, therefore, who hold that economic forces make inadvisable and futile any change in the level of wages except such as would serve to bring particular wages in proper line with other wages—those persons should hold that it would save a great deal of needless strife and confusion if wages could be adjusted almost automatically to changes in the value of money, so that the only special

attention that would need to be given to wages would be to pick out those occupations where for some special reason the advance in wages should be greater than the advance in the cost of living, or, on the other hand, those industries where it should be less. In the absence of such a disturbing factor as war, the peaceful and scientific adjustment of wages would be much furthered by agreeing that there was a *prima-facie* case for an advance equal to the advance in the cost of living.

The revision of wages to meet changes in the cost of living is, however, only a first approximation to determining what wages really should be, because such revision leaves untouched the question as to whether wages were at the right level before the change in the cost of living, and it also takes no account of the question as to whether new circumstances, contemporary with and perhaps related to the change in the cost of living, have not introduced reasons for a change either in the general level of wages or in the relative remuneration of different groups.

STANDARD OF LIVING PRINCIPLE ESSENTIAL IN FIXING OF PERMANENT WAGE-RATES

In dealing with the problem of the permanent level of wages, the writer would again hold that the best method of approach is from the point of view of the standard of living. In localities where living costs are higher than at other points it is obvious that the setting up of a common standard of living will be especially useful in arriving at proper ratios. But under all circumstances the idea of a national standard of living should give the best possible basis for taking in all the country and all industries at one view and getting a real equivalence and justice of wage-rates.

This national standard of living should, as already explained, be fixed upon with a view to what is actually attainable in the industries generally. The procedure in determining it would, of course, depend on the methods by which wages in general were determined. If wages were fixed generally by arbitration boards or industrial councils, or even by trade agreements, the standard of living could be determined with greater and greater accuracy, as the years go by, on the basis of actual examination of the productivity of industry and analysis of what it is possible for the country to pay labor generally. If, as is the common practice now, wages were determined not by any very general program, but by forces working independently in the several industries or several localities, the idea that there was a standard of living which should be met would nevertheless be of help in bringing wages to a standard and true level. At any one moment there is always a tendency toward some general standard of wages, which would be the more nearly one definite rate if the employers and men in each industry had before them the conscious aim of hitting upon such a general standard and would accordingly go to some pains to ascertain what was paid elsewhere. But there would be at all times more or less pressure towards a higher level; and as one industry or another found itself prosperous enough to set up a standard of its own a little in advance of the usual rate, that would tend to be done. If conditions in other industries warranted it there would be a tendency for them to follow, until industry as a whole would be on the higher level. Perhaps some plants at the margin would have to suspend operations or modify their methods. But if during this effort to attain a somewhat higher standard it developed

that the new rate was beyond the reach of industry generally it would fail of general adoption and the ideal of standardization would tend to hold the whole fabric of rates down to the rates which it was found had to be fixed if certain of the important industries were to operate.

Wages have been set somewhat in this manner in the past, but with a great deal of unevenness because of lack of contact and information between different sections and industries. More conscious attention to and support of the idea of wages fitting a national standard of living, would cause the general level to be more uniform. However, the extension of the services of a high type of arbitration board or industrial councils with jurisdiction over large areas and over great numbers of men would tend to bring the standard of living to a greater uniformity and to a quicker accommodation to new levels made possible by industrial progress. It might of course be decided that the standard of living should be a minimum, and that, where it was possible, industries should pay more.

Dr. Mitchell has really avoided this whole subject of the fixing of the general standard, or, perhaps we should say, left it to the gradual working out of economic forces. He would have a system of rate-setting which was inherently much more stable, which obtained its results much more smoothly and with more of justice if he would plan for some method of standardization of the general level. We have not much more than touched here on the actual method of setting up a general standard of living; but surely the idea of such a standard would be almost essential to any studied effort to work out a general level, either through the industries themselves or through some kind of boards.

THE FIXING OF DIFFERENTIALS

But the idea of fitting wages to some understood standard of living is no less useful when it comes to fixing not the general rate but the differentials for different groups of workers. Dr. Mitchell speaks of a great variety of scales of remuneration based on the intelligence, the training, the education, the strength, the degree of attention required, the accuracy, the responsibility, the comfort, the healthfulness of environment, the perils and the steadiness of employment of the different workers. Doubtless all these factors should have some influence on the wage-rate. But the writer is inclined to believe that taking everything into consideration the variety of wage-rates could be reduced immensely; and that the great body of the workers could be rated at either a single standard—modified, of course, through a scale of seniority or proficiency—or on a few scales bearing very simple relations to the main standard.

The industrial world is full of wage differentials between workers; but many of them are of the most illogical character. These differentials are based on historical accidents, on the relative skill of different groups of men in gaining increases and on unessential peculiarities of place and practice. During the War, some of the great wage boards established uniform rates for men from the Atlantic to the Pacific and from the Great Lakes to the Gulf of Mexico (barring colored labor in certain parts of the South) and set up identical rates in all this area for skilled men in a great variety of trades. These awards wiped out a host of old differentials. Sometimes they fitted imperfectly and caused embarrassment. But on the whole they worked. Since the War, the reversion to the old principle of special wage fixing in each place

has brought about a certain measure of diversity. But as long as the wartime idea of national standards was adhered to there was nothing inherently impractical about the system. National standards may be too high or too low or wrongly drawn up, but it has been demonstrated that if we want them they can be made to work.

There are good human and industrial reasons for believing that under a truly fair and logical system of remuneration devoid of accidents, the pay, the worth, of most persons would be not far from uniform. When it comes to creative work, when it comes to very special peculiarities, persons differ enormously; so that one man might well be worth a thousand others. How many workmen would it take to fill the place of Newton, or Lincoln, or, perhaps, of some of the real makers of modern industry? But in proportion as industry becomes standardized on the basis of the best practice, in proportion as there is education, transference of skill, and the spread over great areas of each new thing that someone discovers, the great majority of people are put at work carrying out measures thought out by others. Real ingenuity becomes more valuable than ever; but nine-tenths and more of the actual work of the world becomes routine. Now at routine work people are potentially not so far from equal. There may be many occupations that not everyone could fill; but as long as there are many more people who could fill these occupations—and would be glad to do so—than there are such positions to be filled, such distinctive callings have no special value under our system and draw no more remuneration than the other work of the world.

Not everyone may be able to read, or engage in this or that work requiring special knowledge. But when more people can read than there is need for

clerks, when more people are educated than there is need for school teachers, when more people are versed in languages than there is need for translators, these occupations tend to lose their special economic importance. Education and the greater adaptability of labor tend to wipe out old aristocracies of learning and trade. The unit of industrial labor power tends to be fixed at the value of one pair of hands, or one pair of eyes, or one center of mental attention. Most persons are about as rich as all others in their possession of one or more of these ultimate factors of production. So, in spite of great differences of character and physique, we find the earnings of women approaching those of men, of the illiterate approaching those of the college bred, of clerks and skilled journeymen, of brain-workers and common laborers tending to one level. The very exceptional man, or the man whose income is dependent on what he has himself built up outside of the field of the great industries, may conform to no standard at all. But it will become increasingly possible for wage earners throughout our country, and indeed in not so long a time throughout the world, to be rated on the basis of one standard of living.

RATE-SETTING BUREAUS, UNIONS AND WAGE BOARDS

With the increasing tendency towards nation-wide industrial enterprises, with the increasing frequency with which workers move about, with the increasing standardization of the conditions of culture everywhere, this task of working out sound wage standards based on a broad view of the standard of living will become increasingly essential.

So the writer feels that it would be a mistake to reject the standard of living basis for determining wages,

especially when it comes to future developments; just as it would not be fair for society to ask the workers, under present conditions, to refrain from striving for increases in their own money wages. We are very far, however, from finding fault with the efforts of companies and managers to do what can be done to line up in their proper relations the pay of the different groups of workers in their own employ. Probably the best plan that is now generally possible would be to take the general rate paid in the line of work, or make an advance on it if it is desired, and then work out by some such method as Dr. Mitchell has suggested a system of differentials for the higher or the more trying sort of tasks. The effort should be made to minimize, rather than magnify, the difference in rates between different varieties of work. But pains should be taken to give liberal pecuniary encouragement to the development of those higher qualities of ingenuity and trustworthiness which often take years properly to develop and are of inestimable value. Also, care should be taken to reward different people on the same job in proportion to service rendered.

What we have especially wished to bring out, however, is the fact that the best and the most scientific rate-setting, if confined to a plant, will be short of a complete solution of the problem. No amount of psychology or study of conditions within the shop can take the place of the adjustment, through instrumentalities wider than the shop, of those great forces and principles whose sphere of action may be as broad as all industry. As long as industry falls as far short as it does at present of being just, there must be some means by which rate-setting is influenced by the great movements of groups of workmen to safeguard or improve their condition. As industry

gets better control of itself and its plans become more comprehensive, there must be developed some means by which the agents for many plants and industries, and for countless numbers of employes, may get together and work out generally applicable and fair standards of compensation. Scientific rate-setting in the plant is a good tangible place to begin. But there will remain a place for the labor union and the collective bargain through all of today; and tomorrow, a very large function should be served by the board of arbitration or the council of industry. All are needed if rate-setting is to be broad as well as minute.

THE FRUITFUL WAY TO IMPROVE CONDITIONS

There is one by-product of Dr. Mitchell's discussion which is perhaps of greater importance than the main problem which we have been trying to solve. He says that money advances in wage-rates do not on the whole benefit labor. While we have tried to modify that in certain particulars, on the whole it should be agreed that money advances do not in themselves advance the workers very far along the road to economic betterment. Dr. Mitchell says that, not a general money advance, but the establishment of a right relationship between the pay of different groups of workers is the important matter. That relationship should, indeed, be worked out. But the subject should not be dismissed without its being pointed out, as Dr. Mitchell would be the first to agree, that the real solution of the problem of the betterment of the worker is through greater production.

But, for the individual worker or the individual plant or even the individual industry, greater production does not necessarily mean a gain to the men in that plant or industry. It may if the

management agrees to make it so. The last thought which the writer wishes to bring out is that while greater production makes possible the greater welfare of the worker, and while in the long run, if the greater production is wide enough, it is bound to improve his condition, the one way for the worker to assure himself of increasing his real wages—either now, or in the event of greater production in the future—is for him to develop a program, not so much of raising wages, as of reducing profits (in the economic sense of returns, in excess of wage-cost, interest charges, and necessary expenses). The way out lies not so much in planning to make incomes greater as in starting a resolute campaign to make goods cost less.

LOWERING OF SELLING PRICES, THE GOAL

That, perhaps, is the real lesson to be drawn from this whole discussion. The forcing up of the general money wage-rate, even if it were possible, is too sweeping and indiscriminate a measure. It would under most circumstances do little or nothing beyond increasing the cost of living. A much more logical and effective procedure would be to begin at the purchasing end and, wherever there is an obvious gulf between labor cost and the selling price of goods, work for a lowering of selling prices.

From the strictly practical point of view of furthering the workers' interests, this concentration on the question of what goods cost furnishes a better starting point than even the ultimately more important question of efficiency of production. For, so far as the consumer is concerned, it is only those improvements in production which actually cheapen goods on the market that count. The lowering of selling prices is, therefore, the tangible thing to watch, the concrete goal to

work for. With this measure of success in mind, labor and all those who consume (and that means everyone) should start back along the stream of goods, looking for all the places where wealth may have been diverted. All the places where cheap goods have become dear should be examined; all the wastes should be stopped, until finally that point is reached where the stream can be increased in its original flow through greater production. The enrichment of production is, of course, the fundamental thing; but from the standpoint of popular welfare it is no less important to overhaul that whole system of production and exchange through which goods which may be cheap in the making in so many cases become expensive in the buying.

In general, then, the campaign must be aimed at every form of privilege, on the one hand, and inefficiency, on the other. But the possibility of success lies in its being a piece-meal undertaking. Losses must be attacked according to the ways in which they occur. The campaign must be waged on a hundred different fronts, on monopoly and profiteering of every form; on tariffs whose purpose is privilege, and on wrongly or weakly constructed systems of taxation; on unearned increments, on unstable money, on violent changes of all sorts, and devices for keeping out competition; on wars, and the preparation for wars, and the aftermath of wars; on anti-social trade practices and harmful union rules; on ineffective systems of employment; on ignorance, on out-of-date methods; on inadequate education—on the host of forces which make some people undeservedly rich or bury great sections of industry under a load of inefficiency. The solution is complex beyond description; but it is the only way in which society at large can advance.

If by consistent effort along these lines selling prices can be kept reasonably close to necessary labor (and interest) costs, it makes little difference (so far as we are concerned here) what the general level of incomes is. Let us make sure, as Dr. Mitchell urges, that the different rates of remuneration are

in proper relation to one another; and then be content to have the general level of incomes established wherever monetary considerations prescribe. Some attention the money wage must always receive; but it will tend increasingly to become the small end of a very big problem.

The Equilibrium Wage

By T. N. CARVER

Harvard University

I KNOW of only one approximately satisfactory price for any commodity and that is a price which will tempt producers to produce as large a product as buyers are willing to buy at the price, or which will tempt buyers to buy as much as producers are willing to produce at the price. If the price is sufficient to call forth an adequate product, producers must find it relatively satisfactory. If buyers are willing to buy the whole product, they must find the price relatively satisfactory.

Of course no price is ever absolutely satisfactory to anybody. Sellers would always be better satisfied, or more nearly satisfied, if the price were different—generally if it were higher than that which they are getting. Buyers would be more nearly satisfied with a different price—generally a lower price than that which they are paying. We may as well dismiss at once, therefore, the possibility of ever finding an absolutely satisfactory price for anything. Except in cases of siege, famine or abnormal scarcity when supply cannot increase to balance demand, we must be content with a price which producers find satisfactory enough to induce them to keep on producing and which buyers find satisfactory enough to induce them to keep on buying, so that there is a balance maintained

between production and consumption.

With one important exception, I should apply the same test to the determination of a satisfactory price for any economic service, whether it be that of the laborer, the saver or the business man. If the incomes of business men are sufficient to attract into business as many men of high quality as the industrial conditions can support, business men must find their incomes relatively satisfactory; that is, as satisfactory, all things considered, as those of alternative occupations. We are assuming, of course, that violence and fraud are eliminated and that the incomes are secured as the result of service rendered. There is no more reason, however, for insisting upon this assumption in the case of business men than in the case of savers or laborers. One class is no more likely than any other to make use of violence and fraud. As a matter of actual history, at least in recent years, business men have not made larger use of these methods than have laborers.

If interest rates are high enough to induce people to save as much as can be invested in productive industry without loss to the investors, interest rates are relatively satisfactory; that is, savers find them satisfactory enough to induce them to keep on saving. Borrowers and investors find them

satisfactory enough to induce them to keep on borrowing and investing and the balance is maintained.

With the one exception suggested above, wages are satisfactory in any occupation when they are high enough to induce as many laborers to seek that occupation as employers are willing to employ at those wages.

The exception referred to above occurs when there is a gross oversupply of unskilled labor. When that condition exists, very low wages will be sufficient to attract as many unskilled laborers as can be used. If those low wages are not high enough to enable the unskilled laborer to live according to a standard which is considered decent for a civilized country, they are not satisfactory to the country, even though sufficient numbers of unskilled laborers are willing to accept them.

A minimum wage must then be adopted and enforced. It should be based upon the cost of living according to the lowest standard of living that is consistent with a dignified and civilized life. It has no reason for its existence except where this minimum standard of civilized life is threatened. When this minimum standard is threatened, the minimum wage must be enforced without fear or favor, declaring every self-dependent person who cannot earn it to be an object of charity and treating him as such.

MINIMUM WAGE THE ONLY WAGE RELATED TO COST OF LIVING

The only wage, therefore, that needs to be based upon the cost of living, or pay any attention to the cost of living, is the minimum wage below which we do not consider it decent to allow any one to live. There is no reason for inquiring into the cost of living at all in trying to establish incomes for skilled laborers, business or professional men. Here the equilibrium wage

is the wage that most nearly approximates that which is satisfactory. There is, of course, the possibility that some skilled or learned occupation, or individuals following a skilled or learned occupation, might not be able to get the minimum wage as above defined. In such cases the minimum wage should be enforced in the interest of decency and civilization. The effect of this would be to force these unfortunate individuals either into the acceptance of charity or into some other occupation where they could earn a decent living.

To attempt to enforce a wage higher than the equilibrium wage in any occupation where the earnings are above the decent minimum will produce at least one unfortunate result. The wage would then be so high as to attract into that well-paid occupation more than could be employed. Large numbers of laborers would justly feel aggrieved at being unable to get into so attractive an occupation and compelled to find employment in one that was less attractive. If all the well-paid and attractive occupations become similarly overcrowded—in other words, if the wages are so high in all occupations above the unskilled trades as to attract more than can get in or find employment—it means necessarily and arithmetically that the surplus must be crowded downward toward the unskilled occupations.

So far as the present problem is concerned, it is not necessary to go very far into the question as to what determines the equilibrium wage in any occupation. It is rather obvious that the demand for labor in any productive occupation in some way depends upon the productivity of labor. If labor is very scarce and hard to find, so that each individual is badly needed, the productivity of each individual will be high. You can say

of such a trade, "A few more laborers, a great deal more product—a few less laborers, a great deal less product." In technical jargon, the marginal productivity is high. If there are so many crowding into the occupation that you can say, "No more are needed," or "A few more laborers, very little more product,—a few less laborers, very little less product," it is not likely that any employer will offer high wages in such an occupation. The marginal productivity of labor is low.

No wage board, however, would need to waste any time trying to figure out the marginal productivity of labor. The equilibrium of demand and supply would be a better indication than any

figures that any body of experts would be likely to find. All they would need to do would be to see whether the wages were sufficient to attract into the occupation as many workers with adequate skill and training as employers were willing to employ.

I have read most of the things that have been written in recent years to becloud this issue. It would be a tedious and rather profitless task to go over their arguments in detail. I have decided that the most effective refutation is to state the essential principle in as definite and dogmatic form as possible, leaving readers to make up their own minds as to the relative reasonableness of the contending theories

Factors Determining Real Wages

By ERNEST MINOR PATTERSON

University of Pennsylvania

ECONOMIC theorizing is by no means confined to professional economists. So-called practical men of necessity have their theories on economic questions, or they would not be able to direct the enterprises which they lead, or to formulate policies in connection with them. Both business men and economists have suffered from two weaknesses in their theorizing, and several of the articles before us for discussion in this issue of *The Annals* indicate what these difficulties are.

One is the desire to find an explanation of economic happenings in as broad principles as possible. Physicists, chemists, astronomers and others are constantly seeking for all-inclusive generalizations such as the law of gravitation, the periodic law, the law of inertia. Such generalizations are extremely valuable, and with their aid much more progress can be made than without it. If similar laws could be found in the social sciences, they would

be equally helpful. There is much reason, however, to doubt whether such laws can be formulated, at least with our present knowledge. The field of social science is one in which there are so many forces of such unknown or immeasurable strength that it is probable that very few broad generalizations can as yet be made. Certain it is that not many of the so-called laws in economics have been able to stand the test of current criticism.

One of the reasons for this is to be found in the second of the weaknesses referred to, which is a failure to adapt economic theorizing to changing conditions. Economics must build on certain assumptions taken from other sciences. In the last fifty or seventy-five years these other sciences, notably biology and psychology, have been so revolutionized that the bases on which economists built have been strongly shaken, if not entirely swept

away. More than most of us realize the structure of economic theory has been built on hedonistic and rationalistic assumptions no longer acceptable to biologists and psychologists. The trouble has been intensified by the changing nature of the phenomena with which economics deals. A hundred or more years ago, economic organization was more largely competitive than at present, and *laissez faire* was a more generally accepted doctrine than it is today. With the passage of time monopoly has become much more prevalent than before, and government exercises a far greater degree of influence in the conduct of business affairs.

These difficulties should be kept in mind in an analysis of the problem of wages. We may first of all assume that we are primarily concerned with real wages instead of with money wages. This will lead to the conclusion that fluctuations in the price level, which change the amount of real wages received, should be corrected, and that we need not disapprove any forces that are designed to bring this about. Trade unions, administrative bodies and other influences may be satisfactory aids in securing this result.

ADDITIONS TO WAGES FROM RENT, INTEREST AND PROFITS

As we turn from money wages to real wages, we may observe that these may be increased by additions to the wage scale from either of two sources. One is by deductions from rent, interest and profits without any increase in the aggregate volume of community output. The other is by increasing the product of the community, thus furnishing a larger return to the factors in production, with the expectation that labor will share in the general gain.

While it is doubtless true that many particular enterprises cannot pay

higher wages and continue to survive, it does not follow that the industry of the community as a whole is similarly handicapped. The enterprises referred to are in many instances marginal plants operated, perhaps, on an extremely inefficient basis. Their elimination under pressure would in many cases merely mean that the business formerly secured by them would go to more efficient plants whose productivity per unit of effort is greater. With a larger return they might be able (though perhaps not willing) to pay a higher wage scale. Similarly, a curtailment of profits and a diversion of this fund to wage earners would give them a larger return, and would not seriously affect the aggregate productivity of the community. Frequently profits are sufficiently great to warrant us in concluding that if a workable device were found for transferring a part, at least, of this sum to wage earners in higher wages, there would be no decrease in productivity.

In some cases it is doubtless true that a reduction in the amount of interest paid would in no way affect the aggregate amount of saving. It is quite generally agreed that much saving would be done without any offer of interest, and many contend that by far the larger part of current additions to the capital fund comes from profits rather than from the economies of those who are induced to save by the offer of interest payments. If here, too, some device could be found which would divert some part of these interest payments to wage earners rather than to capitalists, the wage earners would gain.

In reply to this argument it may be contended that even if these amounts could be diverted to wage earners they would save so little that we should not have each year the appropriate additions to the capital fund of the com-

munity. It is contended that wage earners would devote any extra income to establishing higher standards of living, and that the total volume of community saving would be less than we have today. This, however, is by no means self-evident. Much that goes in rent, interest and profits today is certainly not saved, but is spent in the purchase of luxuries. Then, too, it is by no means clear that in the period from, say 1896 to 1914, appropriate amounts were diverted to our capital fund. It is quite possible that during that period the world set aside a larger amount than was advisable for construction purposes, thus lessening the output of consumption goods for the sake of a presumed increase in the output of such goods in the distant future.

Diversions of certain amounts from rent, interest and profits to wages, need not be made in a direct manner, but may be accomplished indirectly. Any form of direct tax on these funds, particularly on rent and profits, might make possible the levying of lower indirect taxes, and thus leave with wage earners a larger fraction of their gross incomes for expenditure on comforts and luxuries. Any shift from direct to indirect taxation is in effect a lowering of real wages, since workers who are compelled to pay higher prices are compelled to resort to a lower standard of living. Wages may also be increased, of course, through profit-sharing plans which give to the workers a larger return.

Such information as we have regarding the national income indicates, however, that the total volume of product is not so large that we can secure any great improvement in the condition of wage earners without some increase in productivity. The estimates of Professor W. C. Mitchell and others, which are the most recent

and the most reliable, show that our total national income was only \$28,800,000,000 in 1909, and \$60,040,000,000 in 1918,¹ while the average annual earnings of employes normally engaged in all industries was only \$626 in 1909 and \$1,078 in 1918.² Such estimates give weight to the contention that not only is the amount received by labor deplorably small, but that the total product is not sufficient for any great increase in the per-capita wage even though complete justice in distribution were assured.

WAYS OF INCREASING PRODUCTIVITY

One of the most fundamental of the proposals for securing larger output is presented by Professor Carver.³ He has merely restated with his characteristic clarity and vigor his adherence to the idea of proportionality. The problem, he argues, is that of securing the proper relative amounts of the natural resources, capital and labor that are employed in production. The best possible arrangement is one in which the amounts of each are so nicely adjusted that the desired output is secured. Natural resources are the least variable in volume, but capital is the result of saving. If owners of capital are receiving a high return, this will encourage saving, add to the supply of capital and thus lower the rate of interest. There will be more product, and a larger amount than before will go to labor. If laborers are so numerous that their per-capita receipts are meager, their numbers should be restricted by limiting immigrants from abroad and from heaven. If some are very highly paid, while others (say the unskilled) get but little, train more

¹ *The Income in the United States*, p. 13. Harcourt, Brace and Company.

² *Ibid.*, p. 102.

³ Cf. "The Equilibrium Wage" by T. N. Carver in this volume.

men for the positions that pay well, leaving fewer for the unskilled tasks, the pay for which will then increase.

In our discussion of other methods of aiding in the problem, there is danger that the truth of Professor Carver's contention will be overlooked. It is as fundamental as any argument could well be, but it is by no means a complete answer to the question raised. Its weakness is that it does not make due allowance for the changes that have come in our knowledge of human beings and in the economic organization of the world.

To a degree Professor Carver recognizes this by assenting to a minimum wage "based upon the cost of living according to the lowest standard of living that is consistent with a dignified and civilized life." Free competition with complete mobility of the factors of production does not exist. Birth control and restraints on immigration do not as yet operate sufficiently well to solve the difficulties; hence, a minimum wage as described, but beyond this the equilibrium of demand and supply.

The solution is a good one, but by no means adequate. The older economics assumed a greater mobility of labor and capital than existed even a hundred years ago, and that grows less as the years pass. Also, it viewed men as productive units which would merely struggle for "higher wages, shorter hours and better working conditions." But organization has grown on both sides, until today the amount of competition as compared with monopoly is far less than before. Among laborers notice, for example, the American Federation of Labor and the great labor unions of Europe. Moreover, these workers refuse to accept theories of specific productivity as settling the matter. They refuse to consider themselves as productive units whose re-

muneration is to be determined by an equilibrium of demand and supply. Sabotage of all sorts is practised by them even as it is practised by their employers, who refuse to operate at a loss or who even destroy products to raise prices.

With the old assumptions and theories workers are dissatisfied, and many employers agree with them. No longer can it be claimed that in spite of its faults capitalism works so well that the world must not experiment with untried methods. Capitalism itself is a changing thing, and is today far different from the organization of twenty-five years ago. In its modified form it is still functioning so haltingly that many thoughtful business men realize that still further changes must come. Only the evening before this article was prepared the writer attended a lecture where he saw a well-known banker and an equally prominent diplomat applaud a speaker who stated that European labor is critical of traditional capitalism and demanding that labor be allowed to aid in the direction of industry.

The wage problem, then, is in part a problem of better distribution, and in part one of larger production. But larger product is dependent on many things. The Committee on Elimination of Waste in Industry of the Federated American Engineering Societies has recently issued a report entitled *Waste in Industry*. To this committee waste is nothing more than a failure to attain standards of accomplishment that have already been demonstrated in practice as feasible. Their assessment of responsibility for existing waste in certain industries studied, places on management percentages ranging from 50 per cent in textile manufacturing to 81 per cent in the metal trades. Labor is held responsible for only 9 per cent in the metal

trades and for 28 per cent in printing, where its responsibility was thought greatest. Other factors than management and labor are held responsible for the other wastes.

This report is only another evidence of our shifting of attention from problems of distribution to problems of production, a change which is due to our realization of the inadequacy of our total product, to the growing sabotage by both capital and labor, and to the recognition of an appalling waste in our industrial processes. Its significance here lies in the fact that it makes clear that management is responsible for more of the retardation and waste of today than is labor. Since wages depend so much on aggregate output, more criticism and advice should be directed to management than to workers. Emphasis should be given to this, for it is being continually overlooked in wage discussions. To repeat: Real wages are definitely affected by the volume of output. The more goods produced, population remaining unchanged, the more the per-capita product, *i.e.*, the higher real wages may become. Sabotage and other forms of waste lower real wages. But the committee of engineers just referred to conclude not only that the waste is serious in certain industries they have examined but that over 50 per cent of the responsibility rests with management and less than 25 per cent with labor. Now, mere increase of product does not necessarily mean higher wages, since much depends on its distribution. Nevertheless, much depends on the effectiveness of management.

WAGE THEORIES USUALLY INADEQUATE

A given wage theory may seem quite logical and yet be of little aid in an emergency. The late President Van Hise once told the writer that he had

searched economic theory in vain for assistance in arbitrating wage disputes; yet we are concerned with the fact that we want results. Our theories are an attempt to generalize on the facts. The generalizations have often been used in an attempt to convince workers of the justice of the existing scheme of distribution. They have not been convinced because, after all, the product is a joint one and a determination of the contribution of each factor, and hence of the appropriate reward for each, is impossible. The theories may or may not be accurate descriptions of fact, but as stated they fail to convince workers of the justice of their reward. As Professor Tawney has pointed out,⁴ it is time to shift our thoughts from *rights* to the more important idea, which is *function*. We must get better results.

What, then, should be our wage theory? The writer is unwilling to accept any one theory unless it be that those policies should be adopted that will secure results—and that is a rather vague generalization. Instead of one theory there should be several.

First of all, the law of proportionality has its place. Professor Carver's statement of it cannot be improved upon, and no matter what the form of social organization, it must not be ignored. But by itself it is far from adequate. Along with it should go a minimum wage as a protection in a society where otherwise many would be crushed.

But that is not all. The "state of the arts" must be improved. Scientific management has done much, and relative rating as proposed by Dr. Mitchell⁵ offers assistance if applied with discretion. Its weaknesses are two-fold: First, it is essentially an

⁴ Tawney, R. H.: *The Acquisitive Society*.

⁵ "Relative Rating Versus Cost of Living as a Basis of Adjusting Wage-Rates."

adaptation of the piece system, and as such may be grossly abused by unscrupulous employers unless it is closely safeguarded. Second, it assumes the possibility of measuring productivity. It should be repeated that product is a result of the functioning of several factors. It is a joint product, and the contribution of any one factor or of a single unit of that factor is essentially indeterminate, unless by the theory of specific productivity (which fails to convince the interested parties, the workers). The wage paid under Dr. Mitchell's plan is accordingly made up of two parts. If A threads 200 bolts in a given time while B threads only 100, A has clearly done more than B, and the latter may assent to A's receiving more pay. But how much more? There are two elements: the basic amount B produces and the differential between his product and that of A. But both of these are the joint products of labor working with tools and materials. The exact product of neither can be determined. Consequently the idea cannot by itself be accepted as a final or a sole solution of the wage problem.

Another element is the necessity of recognizing that the laborer is not entirely wrong when he "makes work." Maximum productivity is not always to his best interest. At the close of the late war workers were exhorted to increase their productivity, but soon they were informed that products were largely in excess of orders, and that factories must close. What is the difficulty?

It lies in the fact that even just distribution (assuming we could agree about it) and maximum productivity are inadequate explanations. Our world is too intricate and cumbersome for such formulae. Production must be of the appropriate kind, and mere exhortation to increase its amount and

then trust to the "invisible hand" or some similar influence is folly.

Thus production may be of luxuries or non-essentials. This is because the articles that are to be produced are determined by prospective profits, which may lead to greatly increased construction of garages and moving picture theaters when there is a dearth of dwellings, or to the manufacture of an unduly large volume of limousines when other commodities are more needed.

Or production may be of necessities, but not wisely chosen. Shoes may be manufactured in relatively too large numbers as compared with the output of cotton cloth or steel rails. Production should be properly diversified if maximum results are to be secured and higher wages follow.

Then, too, our efforts may be directed too largely to the production of capital goods such as railways and irrigation projects, with a view to a large output of consumption goods in the distant future, but with a restricted output of consumption goods in the immediate present.

These last few paragraphs seem a little remote from the worries of a given employer over the wage scale for his plant, but the connection is a real one. We are discussing wage theories and the problem cannot be properly treated unless we realize its many ramifications from the field of distribution into management, business cycles, over-investment and other related topics.

PARTIAL SOLUTION IN THE EFFECTIVE FUNCTIONING OF INDUSTRY

In conclusion, we should note that no wage theory will long be satisfactory if it bases wages merely on the comparative strength of the parties to the wage agreement. Orthodox theories and much current practice have this defect. Herein lies the strength of the

arguments for a minimum wage, a cost of living standard, relative rating, profit sharing and other like devices. But none of these by itself is adequate nor all of them combined. There must also be a recognition of the fact that labor is one of the contributors to a joint product, but that the part it has produced is indeterminate. Instead of deluding ourselves with the belief that it can be ascertained and labor then be given the amount of the product to which it has a right, we should concern ourselves more over the effective functioning of industry. Labor is coming more and more to appreciate its potential power, and is constantly more critical of the weaknesses of management. Such experiments as industrial councils and other devices which give to workers a larger share in management

are a partial solution of the problem.

Only partial, however. No solution is final or complete even for a brief time. The reasons that the present trouble is so acute is that conditions change so rapidly—more rapidly than do our ideas, our theories. Thus the very success of works councils in bringing together employer and employee in a given industry may lead them to recognize their gain in restricting output and in then raising prices to their mutual advantage. Such a move means higher wages in that industry, at least for a time, but the higher price for that product means a lower real wage for every purchaser of it. If such restrictions in output became general, productivity as a whole would be seriously curtailed. No one theory gives the answer today, and no solution will be final.

The Relation Between Wages and National Productivity

By GEORGE SOULE

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AS the pursuit of economic science passes from qualitative analysis to the assemblage and interpretation of quantitative data, students grow more wary of enunciating its "natural laws." Even the laws of the few exact sciences such as physics and chemistry are now suffering a series of shocks from the acquisition and analysis of new facts; and the followers of the still slender trail of economics through the unexplored jungles of human behavior do well to assume a certain diffidence. The present writer has no intention of discussing here the productivity or any previous theory of wages, except as such inadequate statistical data as we have may throw light on them. Likewise, it is incautious to set down any im-

mutable "principles," new or otherwise, for the use of employers, unions or arbitrators in the determination of wage-rates. We have learned from the modern psychologists that principles, so-called, are often little more than weapons seized or defenses thrown out in the presence of conflicting desires, and that, while they are often of a high temporary utility in the heat of battle, they sometimes become embarrassing with a change of terrain or of relative power.

Whatever may be the underlying laws, the surface phenomena surrounding the determination of basic wage-rates are usually highly controversial, and suggest that there is little to influence the result save the respective power of the two parties immediately

concerned. There are, to be sure, moments when the human animal wearies of conflict, and improvises a machinery which will preserve his muscles for more fruitful exercise. There arise arbitral courts of one kind or another, and these courts, as instruments whose purpose is to avoid battle, look about for some guide to decision upon which the reason can rest. Yet most successful arbitrators are keenly aware that they are not interpreting abstract principles of economic justice, or applying well codified laws to specific circumstances. They are, in the main, engaged in the diplomatic and political task of following a balance of power, and it is only within the limits of the territory wherein all parties concerned will consent to abandon the appeal to battle that they can in the long run successfully apply their reason. This may be regrettable, but it is inevitable in a state of society where economic forces are constantly in flux and moral judgments concerning them are not universally held. A criminal judge is on sure ground when he presides over a trial for murder, because murder is widely held in abhorrence and the law concerning it is clear. But an industrial judge who is trying to decide whether wages shall be reduced 10 per cent or 3 per cent has no such certainty. Without a fairly well defined balance of economic power, no arbitrator has any assurance of the limits within which his judgment may operate.

The progress toward basic principles in wage determination is therefore not a sudden leap to a complete set of scientific laws or a code of industrial justice, but a gradual substitution of the more nearly scientific for the less scientific, of the more nearly just for the less just. The area of possible discrimination grows as the communal interest receives larger emphasis than

the particular interest, and such principles as come into use arise, as a rule, in specific cases as a result of the evidence and the arguments introduced by one side, corrected by the evidence and arguments introduced by the other, and tempered by the arbitrator's estimate of the needs and desires of both and of the rest of the public. The considerations to be advanced here have been introduced in support of the contentions of unions in wage disputes. It is with no belief that they are complete or final that they are now summarized, but only in the hope that they may assist the slow development of science and justice.

ECONOMIC IMPLICATIONS OF THE COST OF LIVING PRINCIPLE

One of the most frequently used principles in recent wage adjustments has been that of the alteration of wages by reference to an index of retail prices or "cost of living." This principle was established during the War when prices were rising, and is the reflex of arguments advanced in behalf of labor. The feeling that the purchasing power of wages should not decrease, especially in a period of prosperity, could be counted upon in most arbitrators and fair-minded employers, and it was almost universally invoked. In making this appeal few union advocates had any intention of admitting the converse, that the purchasing power of wages should not increase, especially when a favorable opportunity for such increase should be presented by a falling retail price level. Certainly not many members of the rank and file understand or see any justice in a reduction of money wages simply because a government or other statistical agency announces a fall in prices.

Wage earners are just as likely as others to spend the whole of their in-

comes from week to week, and the practical result of falling prices is a slow and almost imperceptible rise in the standard of living. The housewife is spending just as much after the drop as before; the appearance of slightly better foods on the table, or the purchase of a few long-needed household utensils or articles of clothing is not noted with statistical accuracy by the family. Employers, however, were quick to seize on the "principle" of the cost of living adjustment in demanding wage reductions during the period of depression. Such reductions were in reality necessitated by the financial condition of business enterprises, or, if not necessary, were made possible by the shift of economic power. But the cost of living argument presented an aspect of mechanical justice to the process. One employer, for example, recently summed up the case against a union as follows: "After everything is said, it all comes down to this—we had to increase wages when the cost of living was going up, and now that the cost of living is going down the men should take their medicine."

The feeling of the wage earners, strong as it is, that such a process is unjust, is not sufficient to convince a neutral. This feeling may, however, be converted into a valid argument if we investigate the economic implications of the cost of living principle. At any given time the wage permits the purchase of certain articles and services in certain amounts. Budget studies determine roughly what these items and quantities are. The cost of living index is weighted according to the importance of the various items in the budget. If the wage is continually raised or lowered only in direct ratio to the changes in the cost of living index, it is assumed that the physical goods and services consumed by the worker's family should remain con-

stant year after year. Such a principle applied to the whole body of wage earners would stabilize the per-capita purchasing power of one of the largest classes of the population. But, at the same time, we assume that the physical productivity of the nation shows an increasing trend on account of the progress of technique and industrial organization, and that this increase takes place at a more rapid rate than the increase in population. Who, then, would absorb the additional goods produced, if there were no expansion in the purchasing power of the wage earner and his family? Either an increasing differential would be set up between the standards of living of economic classes, or else a larger part of the population would be sustained in non-productive occupations.

It might be argued that the increasing productive power of the nation need not be utilized for consumers' goods, and that it may be applied solely to a piling up of capital goods. Such an argument is, however, a palpable absurdity if the process indicated is to continue for very long. How could there be any permanent inducement for the accumulation of capital goods if the new capital were never to be used for the production of goods to be consumed?

WAGE INQUIRIES UNDER PRODUCTION INDICES

These reflections open up at once certain avenues for statistical inquiry. What is the rate of increase in production, and in production per capita of the population? What share of the product have the wage earners consumed in the past? Has that share tended to increase, to decrease, or to remain constant?

A number of indices of physical production have been developed and of these, the two published by Walter

W. Stewart of Amherst College¹ and Edmund E. Day of Harvard University² are the most complete, although the basic data are not yet full enough to enable the calculation of a production index which is wholly satisfactory. These two indices use essentially the same data, with the exception that Stewart's includes transportation, while Day's does not. Their long-term trends are almost precisely the same, though the secular trends due to the business cycle vary more widely. If we derive an index of per-capita production from each of these indices by dividing it by an index of population, we discover that physical production has increased more rapidly than the population since 1899, the starting point of the production indices. The slope of the per-capita production curve is a little under 2 per cent, and the net rise, 1899 to 1920, is about 30 per cent.

To investigate the wage earners' share in the physical product is a more difficult matter. We may begin with the share of value produced which has been received by the wage earners in manufacturing industry, using the figures of the Census of Manufactures for our calculations. The value produced is indicated by what the census terms "value added by manufacture." This is the sum obtained by subtracting the cost of raw materials from the net sales. It therefore includes the total amount available for distribution in rent, interest, profits, salaries and wages, and cancels out any duplication in the census figures due to the fact that one factory may use as materials the product of another

manufacturing establishment. The percentage of this amount paid in wages will indicate the share of manual labor in the value-product, and the extraction of this percentage for a number of census years will give an indication as to how constant labor's share in the value-product remains. This calculation shows that the share of labor, from 1899 to 1914, remained almost as constant, on the average, as if it had been determined with mathematical exactness by a supreme economic authority. The percentage of "value added by manufacture" received by wage earners in all industries runs as follows:

1899	1904	1909	1914
42	42	40	41

Similar percentages for each of the fourteen main industrial groups also show a striking uniformity throughout the period. The percentages, of course, are widely different among the several groups. The only groups, however, which show changes of more than three points in the percentage during the fifteen-year period are leather and its finished products, and vehicles for land transportation, in both of which the share of labor fell seven points. This drop was doubtless due in both cases to extraordinary changes in the characteristics of the industry, involving the addition of immense capital investment and the very rapid introduction of machine processes, which markedly reduced the number of wage earners necessary for a given volume of production.

Application of the same analysis to even smaller industrial groups, such as rolled, forged, and other classified iron and steel products, shows little variation from year to year in the percentage received by wage earners. Most of the variation occurs in the year 1914, when labor charges in some

¹"An Index Number of Production" by Walter W. Stewart, *American Economic Review*, March, 1921.

²"An Index of Physical Production" by Edmund E. Day, Harvard University Committee on Economic Research, 1921.

groups ran up to a higher percentage than usual on account of the industrial depression.

FAILURE OF LABOR TO SHARE INCREASE IN PER-CAPITA PRODUCTION

We are now ready to draw a tentative conclusion. If the per-capita product of industry increased steadily, and if the share of all the wage earners in the product remained nearly constant, the real wages of the individual wage earner ought to have increased in direct ratio to the increase in per-capita production. It may be objected that the index of production is an index of physical goods, whereas the calculations as to the share of the product received by labor are in terms of money, which does not retain a constant relation to physical goods on account of shifting price levels. To this objection we may answer that in obtaining our ratio of wages to product we used money for both terms, and therefore any change in the general price level from time to time is canceled out in the percentage. This answer is valid only on one hypothesis, namely, that throughout the period factory prices maintained a constant ratio to retail prices, or, to put the matter in another way, in basing our estimate of the share of the product received by labor on the ratio of wages to "value added by manufacture," we were basing it on the assumption that the purchasing power of a dollar in the hands of a wage earner changes from time to time in exactly the same way as the purchasing power of a dollar paid to a manufacturer for his goods. This assumption is true only if the curve of retail prices is approximately the same as the curve of factory prices.

Now, studies of the actual course of real wages made by comparing an index of average money wages with the index of the retail prices of food over a period

of years are familiar, and they show uniformly that, if food prices may be taken as a sample of retail prices in general, real wages have materially decreased since 1896. The study of Paul Douglas in the *American Economic Review* of September, 1921, for instance, proves that according to this method of calculation, real wages have decreased over 30 per cent in the past twenty years. This conclusion becomes all the more startling in the light of the above analysis. If real wages had increased during this period in the same percentage as per-capita production increased, they would have risen 30 per cent, instead of falling 30 per cent. In other words, real wages in 1918 were 85 per cent lower than they would have been if the tentative conclusion in the preceding paragraph were correct.

It is objected that such studies as those of Mr. Douglas suffer from the fact that they are based largely on wage-rates rather than on full-time earnings, which would include overtime and would take account of continuity of employment. In order to avoid this criticism, and to relate the estimate of real wages more closely to our previous figures, we have derived the per-capita yearly wage from the census figures by dividing the total wage bill of each year by the average number of wage earners for that year, and have compared the index of money wages thus calculated with the index of retail food prices.³ The result shows that real wages, measured in this way, fell about 10 per cent between 1899 and 1914. The conclusion is therefore inescapable that, unless there is some radical error in the census figures, or unless food prices do not accurately represent other retail prices,

³ While this method is not statistically correct for obtaining the actual money wage of the full-time employe, it ought to be accurate enough to establish a trend.

the margin between factory prices and retail prices has been rapidly increasing. Wages measured in terms of prices at the factory have advanced, while wages measured in terms of prices in the retail stores have gone down rapidly.

MODIFICATION OF WAGES THROUGH A SMOOTHED PRODUCTIVITY INDEX

Thus is developed an interesting bit of evidence tending to prove a hypothesis that has already been reached in other ways. Those engaged in the distributive process have apparently been receiving during the past twenty years an increasing share of the national product. They have been exacting a larger return in goods for every billet of steel and yard of cloth produced. They have not only absorbed their former share of the production of the nation, but more too. While manufacturing industry has been increasing its efficiency, distributive service and the national overhead have thus suffered a loss in efficiency of sufficient magnitude to eat up more than the saving made in manufacture. This encroachment has been chiefly at the expense of the wage earners.

The wage earner may argue justly that he is not responsible for any decrease in distributive efficiency or for any increase in the reward of non-productive elements of society. He can make a strong case for the proposition that he should not at any rate receive a smaller per-capita share of the national product than he has received in the past. If this share is to be maintained, the purchasing power of wages must be increased in direct ratio to the increase in per-capita physical production. This means that wages

must be modified not only by a cost of living index, but also by a smoothed productivity index. If such a course were adopted, the task of resisting the encroachments of distributive inefficiency would be transferred to the other elements engaged in production, who are better able to bear the burden of such a battle. Moreover, the efforts of employers and of those who furnish them with capital would be better engaged in organizing the channels of distribution than in resisting labor unrest caused by a falling standard of living and an unnecessarily high level of retail prices.

This study of the relation of wages to national productivity, elementary and incomplete as it is, suggests further fruitful lines of economic inquiry. A fuller elaboration of production indices for special industrial groups is desirable. Perhaps a different method of making and using price indices would be advisable. The present price indices have been founded largely on the assumption that shifting price levels are to be explained chiefly by the quantity theory of money, and that therefore all prices show about the same trend in the long run. Evidently this is not the case. A general wholesale price index gives us no information, for instance, as to whether the percentage differential between prices at the factory and jobbers' prices is increasing or decreasing. Should not price indices be further elaborated so as to indicate the toll exacted by different stages of the processes of production and distribution? And studies of economic waste might be made even more fruitfully in the area of distribution than in the area of production.

AFTERWORD

THE writer and his critics seem to be discussing the living-cost basis from viewpoints of different breadth. For the most part Professor Feis and Dr. Drury speak, consciously or unconsciously, in terms of wage adjustments in a particular industry, in a particular locality or restricted region, even in a single plant. Dr. Drury, for instance, talks about transferring to the workers some of the "differential profits" of the more favored or better managed plant. He and others also claim the possibility of transferring some of the profits of an entire industry to the workers by means of wage-rate advances. Professor Feis in particular puts forth the proposition to limit profits to some "fair rate" by advancing wage-rates to absorb any excess of profits over such a rate.

Now the writer has already shown that a wage-rate increase that is confined to a single plant or to a few plants in an industry may come at the expense of the profits of the employers affected; indeed that a rate advance that is general to an entire industry may to some extent and for a while come out of profits, because the public in its consuming capacity reduces its consumption of the product. Most of the advantage so gained, however, is at the expense of wage earners in other industries; over against the rate advance is the loss from reduced employment; finally, when the process of adjustment within the industry has been completed—the disappearance of some employers, the retardation of the growth of the industry until the needs of the growing population catch up with its capacity at the higher costs and prices—there is no reason to believe that any of the advantage held by those workers who *remain* in the industry is at the expense of their employers' profits.

INADEQUACY OF LIVING-COST BASIS IN UNIVERSAL APPLICATION

The viewpoint from which the writer discussed the living-cost basis was that of *universal application*. So long as the application is restricted to a small part of the whole wage-earning population—to one plant, to one locality, even to one or a few industries—it will be effective in part at least. The narrower the restriction the greater is the effect. However, the success of one group of workers in getting their wage demands granted is the signal for other groups to make similar demands. As the wage adjustment extends through plant after plant, locality after locality, industry after industry, the advantage gained in the earlier adjustments diminishes and fades away. By the time the wage advance has become universal it will have become ineffective; *i.e. unless it has been applied in such manner as generally to have increased the rate of production per man-year*. In the writer's view, any alleged principle that brings its own defeat when carried out to its logical conclusion is not a valid principle.

Mr. Gompers says: "We wage earners know that from time to time we have increased our home comforts by forcing a more equitable distribution of incomes." Certainly they have—*those that obtained the increases*. This would be the case whether the rate advance they forced came in the vanguard of the rate movement, in which case the affected workers fared better for a while, partly at the expense of their employers, mainly at the expense of the remaining mass of workers; or in the rearguard to relieve the deprivation to which those who preceded them in the movement had subjected them. The preceding sentence assumes, merely for

sake of the argument, that before the rate movement commenced, the rates of all workers were justly proportioned one to another; also that the rate advances were rate advances only, *i.e.* were not accompanied by increased productivity. We have elsewhere intimated that some groups of workers may be underpaid as compared with other groups. Furthermore, we recognize that selecting one group of low-paid, under-nourished workers and deliberately over-paying them may have the effect of increasing their productivity. We insist, however, that if and whenever we decide to do this, all parties should know precisely what is being attempted.

RATE INCREASES A MATTER OF PROPORTION

It should be distinctly recognized that the general rate increases the writer is discussing are *proportionate* increases. We are considering wage adjustments in response to changes in living cost. If there should, as a matter of principle, be any such adjustments, the rate advance that should follow a 10 per cent advance in living cost should be a 10 per cent advance, not a flat five-dollar-a-week advance. Professor Feis proposes either the latter or a compromise between the two. The only logical justification of this course is that the lower-paid workers are *underpaid* as compared with the higher-paid workers. But if this is true, surely the proper course of action is to correct the inequitable proportions, irrespective of whether there has been a change in the cost of living. The basis of such a correction must be a *relative valuation of the various kinds of work*, *i.e.* "*relative rating*."

The writer has been represented as making certain assumptions; that competition works perfectly; that a uniform wage-rate exists for all plants; that in-

dustrial motives are unchanging; that all price advances are caused by wage-rate increases; that the marginal productivity theory as applied to labor and to industrial establishments is valid as traditionally expounded in texts on economics. The writer has made no such assumptions. His understanding of the laws that govern the division of the product of industry is about seven degrees removed from the marginal productivity theory as traditionally expounded. He knows from actual observation that competition is neither universal nor guided by full information; that there are many plants whose management is so inefficient that they survive only by reimbursing themselves for the wastes of mismanagement out of the wage-rates of their employes. He would feel no compunction about eliminating these by adjusting the wage-rates of their employes to proper relationship to other wage-rates and eventually transferring their business and their employes to their more efficiently managed competitors. However, relative rating, not living cost, is the proper basis on which to do this. Nor can he see Dr. Drury's consistency in wishing, at one point, to *level up rates*, by elevating those of these exploited workers in his "marginal plants," and, at another point, to make them diverge again, by raising rates in the more favored or better managed plants in order to appropriate for the workers a part of the "differential profits."

Nor does the writer assume that all price advances are caused by wage-rate advances. He does assume, however, that general price advances or recessions do not come *without* cause, and that whatever the cause—inflation of the currency, decreased productivity of industry such as occurred during the disorganization prevailing in the war period, population increase outstripping the improvement of the productive

arts and the accumulation of capital—that cause is operating just as effectively *after* an arbitrary wage advance as *before*.

He does not assume that industrial motives do not change. However, he sees no reason to believe that the motives that actuate the profit pursuer, the landowner or the saver are made any weaker or any stronger by a mere wage-rate increase or decrease. If one could grasp the idea that, under our more-or-less-competitive-private-initiative-profit-motivated-individual-freedom form of industrial organization, the proportions in which the product of industry is divided among the various factor-persons are the ever-changing resultant of a very intricate clash of human wills—commodity competing with commodity in the mind of each consumer, producer competing with producer in selling, employer competing with employer for labor, worker competing with worker for employment, consumer competing with consumer in the purchase of commodities, and so on—he should easily comprehend that no mere general proportionate wage-rate advance or recession that employers would not have granted or exacted in any event, is going to have more than a passing influence upon these distributive proportions. Professor Feis and Dr. Drury can improve the well-being of restricted groups of workers for a while by restricting the area of their operations. However, when it comes to general application, Professor Feis' proposition to limit profits to some "fair rate" by means of wage-rate advances *unaccompanied by price control*, reminds the writer of the Scandinavian God Thor's attempt to drain a certain goblet at one draught, only to discover when exhaustion of his capacity compelled him to desist that the bottom of the goblet was secretly connected with the ocean.

DETERMINATION OF NORMAL PROPORTIONS AS GUIDES IN WAGE DISPUTES

Professor Carver contents himself with stating a principle, which is our old friend, the law of supply and demand. We have stated that "the final test of the relative accuracy of any system of wage-rates is their relative power of attracting and holding workers in the proportions in which they are wanted." Disputes do arise, however, and cases do come before wage boards or arbitrators for decision. In such cases the law of supply and demand is not very helpful to the adjudicator. We have assumed that amid all the varying market proportions there is a set of normal proportions among the wage-rates for the various grades of work and that it would be helpful not only to adjudicators but to plant managers, to the general public and to all concerned, if these normal proportions were determined, or at least closely approximated, and used as a guide to decisions.

The only employer who contributed a discussion, which even he afterwards withdrew, while agreeing with the writer's position concerning the living-cost basis, thinks that the suggested procedure for relative rating "out-Taylors Taylor" in the matter of detail of scientific study; that the work involved would be endless, that it would be ineffective, anyway, unless agreed upon and lived up to by employers and employees, a stipulation which he considers to be hopeless, and that, after all, the proposition contains nothing new. However, the union scale and other scales of which he speaks are not based on carefully determined *performance standards*, which are an indispensable element in any relative rating that is worthy of the name. If the proposition were to establish a governmental commission to make com-

prehensive, detailed scientific studies, establish relative valuations of the myriads of operations and rigorously apply them throughout industry, we should agree that such a course is entirely impractical, particularly at the present stage of development.

The writer's purpose is two-fold; viz: (1) to show the fallacy and unsatisfactoriness of the living-cost basis and to substitute another basis and procedure in the minds of all parties to wage disputes, especially in the mind of the arbitrator, however rough the application may have to be at this juncture; (2) to set up a goal toward which future development may consciously progress. The great bulk of the study is not going to be done by any governmental agency, but *within individual plants* in each of the various industries. A few enlightened employers have already been applying the idea for some time with mutual satisfaction to themselves and their employes. They find it an advantageous substitute for the haphazard trial-and-error method of applying the law of demand and supply. Their numbers will increase. When sufficient progress has thus been made within plants in each of the various industries, it will then be feasible to bring the results together in inter-industry relative rating. There is, however, the important need of standardizing the procedure and methods of investigation and rating so that the results *can* be brought together.

Mr. Portenar, who follows a printing trade, says: "If the results of your 'relative rating' and the union scale coincide closely, there will not be any trouble at that moment. If you let us in on the making of it, it will lubricate the process." When we look through this more or less competition-restrained profit-motivated private initiative, which is merely the external *form* of our industrial organization, to the

underlying real purpose of it, which is the maximum economic well-being, not of any one person, class or group, but of *all*, we cannot see that the workers' right to be "let in on the making" can validly be denied.

VALID JUDGMENT BASED ON PRODUCTIVITY AND NORMAL RELATIONSHIP

We recognize that employers who wish to build up their work forces more rapidly than the growth of the population and displacement of workers elsewhere will permit, are going to exceed any scale rates that may be agreed upon. However, it is not likely that we should have anything like the range of variation of rates within the same occupation or grade of work that we now have. We assume that groups of workers will continue to "surge against their wage-rate"; we hope, at least, that each individual will persistently surge against his wage-rate and continuously prepare himself to render service of higher and higher value. However, when groups "surge," the general public needs a means of validly judging the merits of the surge. So does the arbitrator of wage disputes. We hold that the effective issue is whether the particular wage-rates demanded substantially restore the normal relationship with the general mass of other wage-rates.

Finally, when all parties come to recognize that, practically, the wage question is a question, first, of the productivity of industry, second, of proportion between the incomes of different groups of workers and not of division between workers and employers, we believe that such recognition will make for greater stability of industry and for better coöperation of employes with employers to increase the productivity of industry and provide more to divide.—T. W. MITCHELL.

¹ Cf. Article by H. B. Drury in this volume.

Unemployment and Its Alleviation

By B. SEEBOHM ROWNTREE

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PERHAPS there is no subject which demands the consideration of serious men and women today so urgently as that of unemployment. It is, indeed, a huge world tragedy. In all industrialized countries there are, at present, probably more unemployed people than there have ever been before at any given time. Human civilization is passing through a crisis, the severity of which is already leading to a complete change of attitude on the part of those who have been inclined to view "the unemployed problem" with indifference, if not to accept it as something which, like bad weather, may be objectionable but is completely beyond our control. Unemployment is not a meteorological problem. It is a human problem, to be solved by human beings, a problem so imperative that one is astounded to find that even working men often regard it with a kind of gloomy fatalism. Let us hope that the suffering and suspense which we see all around us today may shake the most apathetic of us out of our cool acquiescence.

I will begin by stating my profound conviction that unemployment is a soluble problem, an evil which can be remedied. There are social evils which, throughout the centuries, have baffled human intelligence. They are due to fundamental and very complicated causes, and the wisest men may differ as to the direction in which the remedy should be sought. But it is not so with unemployment. Our resources of wit and wisdom, of economic and industrial knowledge and experience, are sufficient to cope with this evil, if

we will only use them. I do not say that as yet civilization can completely dispense with unemployment. But we can change its character in two ways. We can so reduce its volume that it represents merely the body of workers who, at any given time, are held in reserve by industry for strategical reasons. And we can rob it, when it exists, of all its power to inflict any serious injury on either the individual or the community.

NO SINGLE PANACEA FOR ILLS OF UNEMPLOYMENT

I should like to indicate some of the roads by which we must travel, if we are to attain this end. Mark, I do not speak of "the road." There is no single panacea for healing all the ills which we call to mind when we speak of unemployment. I agree with Rabelais, who said, "Beware of men who peer out of one hole—they are rabbits!" And I should profoundly distrust anyone who wished to patent some single method of solving the problem before us. We must approach it from many directions, and employ many partial remedies. It is, if you will, a giant evil, and we are Lilliputians; and yet—how soon the Lilliputians had Gulliver bound hand and foot, when once they worked together. If only we grasped, today, the practical import of Swift's old fable, all would be well.

My subject falls under two headings. These are the reduction of the volume of unemployment, and the mitigation of the hardship, suffering and demoralization arising out of whatever unem-

ployment it is impossible to avoid. I will take these in sequence, merely saying at the outset that I am not proposing to deal with the abnormal situation that the War has created, and which still demands the use of many emergency methods.

THE REDUCTION OF THE VOLUME OF UNEMPLOYMENT

First of all, we must try to find out the magnitude of the problem, and here we are faced by the fact that there are no reliable and 'complete' unemployment statistics over a number of years for any single country. Thus, we cannot so compare different countries as to generalize as to the causes of unemployment with certainty and precision. To my mind, the Labor Department of the League of Nations can undertake scarcely any activity more useful than the compilation of reliable statistics in this connection. That, of course, would involve initial agreement upon some definition of unemployment. What is it? What is its relation to short-time? If fifty men are working half-time, they are only doing the work which could be done by twenty-five men: and it is difficult to know whether to call them employed or unemployed. But we may here, perhaps, without concerning ourselves with borderline cases or with the individual who is waiting for some job particularly adapted to his desires and will not work till he gets it, define an unemployed person as "one who is seeking work for wages, but unable to find any suited to his capacities and under conditions which are reasonable, judged by local standards."

NECESSITY FOR COMPLETE UNEMPLOYMENT STATISTICS

Now, as I said, there is a very great lack of precise information with regard to unemployment taken in this broad

sense. The lack is greater in America than in England, but the advantage of the latter country may be called accidental, arising mainly from the fact that England has a system of national unemployment insurance, and anyone who wishes to take advantage of it must register himself as unemployed. Again, the British Trade Union Statistics furnish some help in this matter. Between 1888 and 1913 unemployment varied in Great Britain, in the trade unions which made returns, between 2.1 per cent in 1889 and 7.7 per cent in 1913. To what extent those percentages were typical of the whole industrial population we cannot precisely tell; but we are justified in believing that, apart from the unprecedented conditions arising out of the War, the average proportion of unemployed workers can be stated roughly as about 5 per cent. In other words, in Great Britain, taking the average of good and bad years, but ignoring the quite exceptional circumstances due to the War, five workers are unemployed for every ninety-five who are employed. There is no reason to believe that in other industrial countries such as the United States, France, Italy and Germany the percentage of unemployment is substantially different, although in Belgium it is somewhat lower, for reasons which I will presently state.

CORRELATION OF GOVERNMENT AND MUNICIPAL ORDERS WITH STATE OF LABOR MARKET

Now, when we have some rough notion as to the amount of unemployment, the first step towards its reduction will be, I think, to allocate the orders for government and municipal services and goods in accordance with the state of the labor market—retarding them when trade is booming, and placing them when it is depressed. It has been authoritatively estimated

that orders for work involving the payment of wages to the extent of about 250 million dollars a year could thus be given out or held back in Great Britain in accordance with the state of trade. Such a policy, if adopted, would help materially to even out the curve of unemployment. Suppose trade cycles covered ten years, and that every ten years witnessed a period of acute depression. If, in the previous nine years, orders had been held back for necessary post-offices, harbors, government buildings, etc., there would be a huge surplus with which to meet the time of stress. Joseph solved the problem of fat years and lean years in Egypt long ago!

Then, of course, additional work might be undertaken at such a time, work which, if not absolutely necessary, is eminently desirable, such as afforestation or the reclamation of waste land. Again, parks and gardens might be laid out, or buildings put up, the erection of which, though hardly to be justified by normal economic considerations, is all to the good. The latter items, perhaps, are not very important, but we must consider even small contributions to the solving of our problem.

IRRELEVANCE OF PROTECTIONIST THEORY

On the subject of the political arrangements which a country adopts, I need say only a few words. As you know, many people tell us: "The reason why men in America or England are unemployed is that they allow foreigners to steal their jobs. If you want to reduce unemployment, you must close your ports by high import duties, and prevent foreign goods from coming into your country."

I have only one criticism to offer of this counsel. It is that whatever records are available on the subject of unemployment seem to show that there

is no difference in this respect between countries which are Protectionist and countries which are Free Trade!

REGULATION OF THE LABOR MARKET

The third method of reducing the volume of unemployment is the regulation of the labor market. In Britain, we have a system of Employment Exchanges, at which anyone who wants work can register free. The cost of these Exchanges is met by the government. A man registers at one of them giving his qualifications, as *e.g.* carpenter, and stating that he wants work. Meanwhile, there are numbers of local employers who notify the Exchange if they want men. The official at the Exchange, if an employer has "ordered," so to speak, a carpenter, can simply send this applicant. But if there are no local vacancies for workers of his class, the Exchange official gets in touch with Employment Exchanges in other cities. Possibly in another center there may be an opening for carpenters. This system extends all over Britain, and has certainly helped to render labor more mobile, and to bring the man and the job together. Suppose there were such an Exchange in Philadelphia, and an optical instrument maker went to it and registered. The official might say: "No, we've nothing for you in Philadelphia." But a circular letter containing the man's qualifications, would immediately go out to all other Employment Exchanges within a given area. Of course, Britain is so small that we can take in the whole of it as one given area, but one area might include Philadelphia and New York; and quite probably, the next morning that official would have a telephone message, or a letter, telling him that an optical instrument maker was wanted in New York.

Now this method, by rendering labor more fluid, lessens the number of labor reserves. We may take an illustration from the dock laborers. Suppose there are ten separate docks, each of them busy on some days and idle on other days, and each of them keeping round its gates a sufficient supply of workers to meet the rush on busy days. These workers become attached to that particular dock, even if the work they get is extremely intermittent. They hang round on the chance of a job, as do the other groups of workers attached to the other nine docks. This means ten distinct reserves of labor. An Employment Exchange would merge these ten reserves into one, simultaneously reducing the bulk of each, since all ten docks would never be especially busy on the same day. In other words, the common reserve would be much smaller than the sum of ten separate reserves. The result would be that the workers retained would secure work that was much more regular, although it involved going first to one dock and then to another, while the workers crowded out would give up hanging about the dock gates, and gradually become absorbed in some other department of the labor market.

TRANSIT FACILITIES, BELGIUM'S SOLUTION

Another method of reducing the volume of unemployment has unconsciously been adopted in Belgium. In Belgium, facilities for cheap and rapid transit have been developed more extensively than in any other country in the world. It has a larger mileage of heavy and light railway per square mile of its territory than any other country, and workmen's tickets can be bought very cheaply indeed. The result is that men can work in the town and live in the country, and in 1911,

when I investigated the matter, I found that 56 per cent of the working men in Belgium actually did so, though only 23 per cent were primarily engaged in agriculture. All those who lived in the country, however, had gardens, which practically furnished them with a kind of reserve trade. A Belgian, so circumstanced, when he cannot find work in town, spends the time on his land, doing the heavy work there, so that when industry once again claims him, his wife and children may have only the lighter work to do. Many Belgians, again, keep hens, or pigs, or rabbits. A man can slip up to town early, see if there is a prospect of employment, and, if there is not, come straight back to his garden. This is done by the longshoremen of Antwerp, 85 per cent of whom live in the country. And if trade depression lasts long, the family is not left altogether without work or without resources. They may have to live hardily, but they can manage to live.

MITIGATION OF THE HARDSHIPS OF UNEMPLOYMENT

I come now to my second heading. We have considered some of the methods by which unemployment can be reduced. But there seems little doubt that whatever steps are taken in this direction, there will still remain, at any given time, a proportion of men for whom work cannot be found. Such a margin, at present, and possibly under any conceivable system, is necessary for the proper functioning of industry, which otherwise would tend to become static, merely by its inability to call up a fresh reserve in case of contingencies. Industry really needs to have extra workers available, just as we need in our daily life to have a few extra dollars to meet some additional expense or emergency.

But if industrial progress and pros-

perity demand the presence of this human reserve, it seems to me logically inevitable that industry ought to maintain it. In the first place, to do so is an ordinary business precaution. We do not neglect valuable machinery if for a few days or weeks it happens to be idle. We know that we shall need it again, and we keep it in good condition. Surely we owe as much to the man behind the machine! In the second place, we owe a decent maintenance to the unemployed worker as his right. Under the existing system, the capitalist practically asks the worker to co-operate with him in an industrial undertaking. He guarantees the latter's wages so long as the undertaking continues, but he claims the whole of any profits left over because, as he asserts, he is "taking all the risks." Now one of the gravest risks in industry is unemployment in times of trade depression. If this risk is borne entirely by the worker, the capitalist is clearly not fulfilling his part of the bargain.

A PLEA FOR UNEMPLOYMENT INSURANCE

I know that in some quarters there is a strong feeling against unemployment insurance. I believe that feeling is based upon unsound beliefs and arguments. It is frequently asserted in America that unemployment insurance has been a failure in England.

But that is far from being the case. Rather, our scheme of insurance, inadequate as it is, has, in my opinion, saved us from something like a revolution, and at the least from very serious civil riots. It must be borne in mind that there is nothing intrinsically demoralizing in unemployment insurance. Its reactions largely depend on the nature of the scheme. In England, insurance benefits do not drop down from the skies for every lazy workman. The method is one of mutual insurance, to which the workman, every week when he is in work, pays 14 cents, and the employer pays 16 cents. When the man is out of work, he gets about \$3.60 a week.¹ It is no more demoralizing to receive it than it is to receive a pension paid for in part by oneself and in part by one's employer.

ECONOMIC LOSS THROUGH THE MENACE OF UNEMPLOYMENT

What is demoralizing, what is dangerous, is a state of things in which this terrible menace of unemployment is constantly hanging, like a black cloud, over the worker's life—in which he is completely at the mercy of fluctuations in trade over which he has no shadow of control. They may, indeed, be owing to some seasonal calamity at the other side of the world, which is beyond human control altogether. No matter how capable, how honest, or

¹The weekly contributions made by the workers and the employers, as well as the benefits to the unemployed, have recently been increased and now stand as follows:

Contributions:

	Men	Women	Boys (16 to 18)	Girls (16 to 18)
Workers.....	18c.	14c.	9c.	8c.
Employers.....	20c.	16c.	10c.	9c.

Weekly Benefits:

Men.....	\$3.60, plus \$1.20 for a dependent wife, and 24c. for each dependent child under 14.
Women.....	\$2.88
Boys.....	\$1.80
Girls.....	\$1.44

how industrious the individual may be, he cannot escape from this black cloud. We may say: "He can live on his savings when unemployment comes." But the evil may come perhaps in early middle life, when the expenses of his household are at the maximum, and he has been unable to save. If on the other hand, it comes later, a period of unemployment will soon eat up the small provision he has made against old age. This is not fair.

It is sometimes said that many working men "will not give a full day's work." Now, I put this question to you. If you were a bricklayer with a wife and family, and it was winter time, and you knew that when the job on which you were engaged was finished you had little hope of another—would you work at top speed? Or would you dawdle and slack, and make excuses, and try to "nurse the job?" You would "nurse" it, if you were human, and so would I. What is more, I would recommend my "mates" to do the same!

Now we can dissipate the black cloud of anxiety from the working man's horizon if we take a little trouble and use a little common sense. Let me remind you that taking the average over a number of normal years, there are ninety-five workers employed to five unemployed. What does this mean? Simply that an addition of 5 per cent to the wage bill would suffice to pay each unemployed worker his full wages during unemployment. Therefore, the financial difficulty is not insuperable. I am not for a moment suggesting that the above course should be pursued. Human nature is not yet so far evolved that it would be wise to pay a man the same wage when he is not working as when he is working. At the same time, he should be paid sufficient to secure him and his family against serious privation or hardship.

A PRACTICAL SCHEME OF UNEMPLOYMENT INSURANCE

To come to what I consider practical politics, I will very briefly outline a scheme for unemployment insurance drawn up by an unofficial committee of employers, economists and labor men which met many times in London and of which I was a member. We suggested that under this scheme every unemployed worker should receive, for a maximum period of twenty-six weeks in any one year, half of his average earnings when at work. A married man should receive in addition 10 per cent of such earnings for a dependent wife, and 5 per cent for each dependent child under 16, with a maximum of 75 per cent of his average earnings. Calculations showed that the cost of providing these benefits in Britain for 5 per cent of the workers (the figure taken as the proportion of unemployed persons over a number of years) would amount to about 282 million dollars per annum or 4 per cent of the wage bill.

The question—"Who will pay the premiums?"—was discussed a long while by the committee before, in true English fashion, we decided on a compromise, and proposed that the cost of the scheme should be borne jointly, as at present, by the State, the worker and the employer. Briefly, the plan was this:

1. Premiums equal to $2\frac{1}{2}$ per cent of the wage bill (or 185 million dollars) would be paid by the employers.

2. Premiums of a little under 1 cent on every dollar of their earnings (equal to 75 million dollars) would be paid by the workers.

3. Twenty-two million dollars a year would be paid by the State, which would also bear the cost of administration. This 22 millions was the sum already being paid by the State for

unemployment insurance when the scheme was worked out.

SUCCESSFUL EXPERIMENT UNDER THE SCHEME

We hoped that the government would see fit to introduce this scheme, leaving industries free to contract out of it if they could guarantee equal or better benefits. This hope has not yet been realized, but my own firm came to the conclusion that, while waiting for the government, we ourselves could do something, so we introduced a similar scheme in our own factory in York. We set aside 1 per cent on our wage bill (in addition, of course, to the contributions we make under the National Insurance Act) and we undertook to continue to set this aside till the sum amounted to 5 per cent of the wage bill; after which our contributions would be altered to the sum necessary to maintain the fund at 5 per cent of the wage bill, with a maximum liability in any one year of 1 per cent of the wages. The majority of our employees belong to a trade union which, for a payment of 4c a week, allows them \$1.40 weekly when unemployed. Thus, when the scheme was inaugurated, an unemployed man already got \$5 (\$3.60 from the state and \$1.40 from his union), and an unemployed woman got \$4.32 (\$2.88 from the state and \$1.44 from the union). We calculated that a premium of 1 per cent on the wage bill would be sufficient to bring the benefits up to those mentioned in the scheme above described—*i.e.* half the average earnings, with an additional 10 per cent for a dependent wife and 5 per cent for each dependent child, up to a maximum of 75 per cent of the average earnings.

One important condition in our scheme is that though we guarantee to pay an agreed premium, we do not guarantee the benefits, which, if the

scheme were abused, might have to be reduced or even temporarily suspended. It is obviously in the interest of the employed workers who feel that they themselves may one day be in need of benefit, to guard against any contingency that might unduly deplete the fund. Its administration is in the hands of the workers, who can therefore take whatever steps they consider necessary to check abuse.

I may add that the match industry in great Britain has recently adopted a similar scheme.

Now, while I am deeply desirous of seeing a system of national insurance against unemployment, with really adequate benefits, established in every industrialized country, and while I hope that the League of Nations and all individual governments will devote thought and energy to this most important matter, I am anxious to recommend individual employers to introduce some measure of insurance in their own factories. Some may say that they cannot afford it. But purely from a business point of view, I believe that it pays to give the workers comparative security. How can we expect them, without it, to work faithfully and to "put their heart" into what they are doing?

UNEMPLOYMENT INSURANCE NOT DEMORALIZING IN EFFECT

I have heard it argued that a scheme of unemployment insurance will make men object to taking lower wages when trade is depressed. But does anyone really want to force men's wages down by the threat of sheer starvation? Can we not enter into such relations with our workers as will enable us to lower wages peaceably, when that is necessary? We had no difficulty in England, at our own factory. When we were forced to lower wages, we simply discussed the whole question with the

union leaders round a table, and we decided mutually that it was a case for reduction. There was never an angry word, never an angry thought. Our unemployment scheme made the matter easier, not more difficult.

Nor does it demoralize the workers. We had an ugly, dirty job to offer the other day in the factory. Some men who were getting \$15.60 a week unemployment benefit said: "Give us a chance at that job, if necessary at the sum we are getting now. We want to work!" The working man is no more naturally lazy than we are ourselves. We all like a holiday, but we are soon tired of it, and we want to get back into harness.

In conclusion, the evils of unemployment are such as no civilized com-

munity should tolerate. They sap the health and the vitality of millions of human beings, and they are unnecessary evils. For a weekly contribution of a few cents from each worker, and a tax of about 3 per cent on the wage bill, industry can sweep away these evils. I beg of you not only to find out and adopt every possible measure for reducing the volume of unemployment, but to introduce, without delay, a wisely considered scheme of unemployment insurance. If you cannot get a whole state, or a whole industry, to move, do your utmost in your own factories! It is a duty you owe to the workers who are your fellow citizens. It is a duty you owe to yourselves. It is a duty you owe to the country.

Regularization of Industry Against Unemployment

By HENRY S. DENNISON

President, Dennison Manufacturing Company, Framingham, Massachusetts

IN discussing the question of unemployment, Mr. Rowntree has said¹ that the most important thing is to provide for its removal, but added that, as it can never be entirely removed, a proper scheme of unemployment insurance is desirable.

In this connection I want to emphasize two points: In the first place, do not forget how successful is the faculty of the human mind to find reason for the things it wants and against the things it does not want; we must therefore discount the opinion in the minds of some American business men that England is ruined by its unemployment insurance. I do not know whether unemployment insurance is the best thing or not. I am inclined to think it is an important piece of social machinery. At any rate we should not be too frightened to talk it over.

¹ See page 95.

In the second place, we must remember in considering any such vital piece of social machinery that it affects the whole social structure. Our fire hazard today is not what it was before the mutual fire insurance companies began to do business; it is very much lower. Our accident situation is different since we have had compensation policies; and if one would put in unemployment insurance, he must realize that the situation as it is today will not remain the same. With any sort of wise plan of insurance the rate of unemployment will be made better because it will be to the interest of management to make it better.

Our company has taken the plunge into unemployment insurance, and we found the water was not as cold as we thought it would be. I should like to see the next experiment in this country an attempt at mutual insurance against

unemployment. I should like to see the rate vary with the regularity of employment in the industry. The mutual fire insurance companies stick you if you have a dangerous risk and I should like to see such an arrangement worked out in unemployment insurance.

There are two kinds of problems that we must face in the matter of the regularization of industry. One kind arises from irregular employment due to seasons and the other from irregular employment due to cycles. I strongly urge that you keep these two separate in your minds.

REGULARIZATION OF CYCLICAL UNEMPLOYMENT

As to irregular employment due to the cycles which occur approximately once in seven to ten years, with minor cycles about every three years, preventive work must be done in normal times and more particularly in prosperous times. The job of regularization against business depression is a job which takes active form just before we get too drunk on prosperity. When business is recovering from a depression and the curve comes up and crosses the line which might represent a normal increase, profits are increasing at a rapid rate, and we have an optimistic tendency to continue that line indefinitely into the future, thinking we shall always go on at that rate. There is at this time a very strong temptation to over-expansion, and it is at this point that the business man ought to bring to a focus his best attention. We feel too good. We ought to take a careful account of stock and look into the future; but let me urge also that we should look into the past and tabulate the curve, the track of our sales over as long a period of years as we can.

Most of us have been through three or four periods of depression and what

have we learned from them? We have learned little or nothing, because, as Mr. Cooke has said, the practical application of what we have learned must each time be postponed for a period of two years, or more. This time we must not forget, because we have learned that the inability to employ ready, able and willing workers is an unanswerable indictment against our present social system. We need have little fear as to some of the other indictments often brought against our social system, but it is mighty difficult to answer the indictment that an industrial system which boasts that it gives every man a chance to get ahead fails every few years to meet the most fundamental needs of its workers. The world is now in need of all sorts of goods, yet we cannot offer men jobs making these goods.

In prosperous periods we must prepare for depression. In our company we have drawn many curves of our past experiences and we pay close attention to the economic bureaus which give curves condensing the vital statistics of the present situation. In this way we were able to make the estimates, very simply and without any particular genius, that allowed us in January, 1920, when everything was overselling sixty per cent, to make adequate preparation for the depression which struck us in November. It was not difficult, because we had men in our Research Department whose duties were to study, watch closely and figure where we were in the business cycle. Everybody was skating on thin ice and the ice broke, and there was quite a crash in several places. Out at Akron, Ohio, there was general commotion and shoes and textiles were materially affected. Yet I know business men who were buying their year's supplies in August and September, 1920, at high prices when four major industries

had already slumped. It is not difficult to keep in the course if one studies the present as growing out of the past and does not just look at the increase in present figures over past percentages and say, "Isn't that fine?"

We study the cycle with reference to the work of several of our departments. This does not mean that we always get it right. We do not know exactly when changes are coming and do not much care within a few months. Of the great group of commodities which constitute more than half our purchases we buy to have smaller quantities on hand when prices are well above a normal line. We purchase to larger stock standards when the price of any commodity is below its normal line. During war-times the normal lines go to pieces, but war-times are exceptional. Most of the time those lines are fairly easy to determine. When prices go much above that line, we buy from hand to mouth; when below, we buy more generously. We cannot help winning in the long run on this policy. Our advertising is managed on a similar basis. The advertising appropriations are made on a five-year basis and the manager is supposed to reserve his advertising appropriation in good times and blow himself in hard times. This is the principle applied in every department of our organization.

REGULARIZATION OF SEASONAL UNEMPLOYMENT

Regulation of seasonal unemployment requires the use of plans which will vary somewhat, according to the industries to which they are to be applied. In our case, we first got our sales department to get its orders for seasonal goods just as much in advance as possible. We have been surprised to discover how successful they have been. We used to think that jewelers would not order their Christ-

mas stocks until May, but we have found they are glad to order in January, just after cleaning up after the rush. Seasonal orders can be obtained well ahead in many other lines also.

In the second place, we increase the proportion of non-seasonal orders, especially long-delivery items, so that we can work them in during the idle times, and we plan our inter-departmental needs well in advance. Where formerly we let the departments order goods as they liked, now we fit their orders into our other work. For instance, boxes for the sealing wax department are made during the slack periods of the jewelry trade.

In the third place, we build up out-of-season items and vary or add to our lines so as to prevent lay-offs. In the box business the die printers were idle for a certain period each year; so we added die-printed Christmas cards, which are made for the following Christmas during the idle period.

In the fourth place, we do all we can to train our workers for more than one job, and this plan has yielded very satisfactory results. It has given greater flexibility to factory control and stimulated the interest of the workers as well.

I have barely outlined our plans as it would not be possible to go into detail, but I assure you that there is much detail involved in such a program. Much time and patience are required before results are evident, but we have been so far successful that for some years we have run at virtually even production throughout the year, and when the curve of the present depression touched its lowest point, we were able to maintain ninety-six per cent of our normal operation.

I urge you employers to take the unemployment problem as up to you! Don't figure on letting George do it; it's better to help Herbert do it! Don't

figure that the cure for unemployment is the repeal of the Adamson Law, or that the cure is something somebody else can do. It might be, but if it does not happen to be, you have left yourself out in the cold; none of us does his share unless he figures that share to be a little bigger than it really is. The job is up to us! There is much the government can do; there is much the financial group can do; but the greatest share of the job is ours and if we are going to call ourselves managers, let's put mind and soul to this big

task of solving one of the most pressing and vital problems of every industry.

The present condition of unemployment is so serious and is such an indictment against the social system that I earnestly urge you to remember for the next two years, during which the real preventive work must be done, that it is up to you—up to every one of us—to take effective measures so that the next depression will not find us so ill-prepared, will not find us having learned so little from all the depressions that have occurred in the past.

The Russian Famine Region

By VERNON KELLOGG

Special Investigator for the American Relief Administration in Russia

ONE can judge of the situation in a country in which there is an alleged famine by either one or both of two ways. One can study in an office the figures of normal production and consumption and compare them with abnormal production and get a very fair idea of what the food situation must be in the affected region. For example, in the single province, or government, in Russia, of Samara on the Volga river, the annual pre-war production of grain (wheat, rye, oats and barley) was about 120,000,000 poods (a pood is 36 pounds); in 1920 it was 18,000,000 and in 1921, 3,000,000. That is just about enough to feed all the people of this province, if this 3,000,000 poods of grain were equally distributed, for one and a half months. Under such conditions there is bound to be famine unless some food is coming in from the outside.

But there is another way to estimate the situation in a country claiming to be suffering from hunger. That is to see the fields and warehouses and markets and the people themselves.

When you start from Moscow towards the Volga river across the broad plains to the east of the great city, you soon become aware of the peculiar apathy and deadness of the people at the trains; and as you get further along, your attention is unescapably attracted by groups who are camping by the railroad and at the railroad stations. These are the so-called refugee camps—terrible sights. These are the people who, in panic, are trying to flee from the famine region and who have got this far. And when you finally reach the Volga itself, you will find more refugee camps along the river—a broad, slow, muddy river rather like our Colorado of the West after it leaves the cañons and gets out on the desert. All along this river on which move still a few heatless, lightless, foodless boats, there are many of these camps of men, women and children who want to be taken away anywhere on the boats. The people in the camps have a certain kind of food with them. It is their bread, black, sticky, awful, made of bark and bits of roots and leaves and of “clay”—really humus.

They are living on this and some potatoes and cabbages.

When you analyze these groups, you are struck by this fact: that half the people in these refugee camps are peasants and peasants' families. They are the people who come from the sources of food; the fields in which food is produced, if any is produced. Almost always in relief work the people who have to be helped are those in the cities, the workless working people, the industrials who have no money to buy food at the high famine prices. But here in Russia, before you get into the famine region itself, you know there is famine by finding out that the refugees are the peasants themselves, the food producers.

THE NEED OF THE CHILDREN

It is not my intention to harass you with stories of the dreadful things one sees in the Russian famine region. Just one little picture that will not leave my eyes. The people are trying to take special care of the children—hungering people always try to do this—and so they have set up children's homes in towns along the Volga. Children are picked up on the streets, orphans in fact or orphaned in effect by being deserted by parents unable to feed them, or they are brought to the homes by the despairing parents. The parents are not killing their children and eating them, as has been reported in some newspaper stories, but they are giving them up. And the children are collected in these homes—bare, heatless buildings—with very little food but all that the few brave women who are trying to take care of them can get.

In Children's Home No. 5 in Samara I happened to come in just at the time for the noon meal. This was composed of horse meat—the farmers are killing their farm animals which they cannot

feed—and grits. All the children were sitting on the floor in a large bare room, most of them with their backs to the wall in a pitiful line about the room. There were three cots in this room and four children were lying on one, three on another and three on another. After they had eaten their meal, I said to one of the women, "Where do they go now?" "They stay here," she said. "Where do they sleep?" "They sleep here." "Do you bring in mattresses and blankets?" I asked. "We have no mattresses and blankets," she replied. "Is this all the food they have?" And she answered, "Yes, when they have any food at all." When I told these women that the next day they would have rice with sugar and milk and white bread from America, they broke down.

The whole situation is incredible to those who have not seen it; it is beyond description by those who have. The region affected includes at least fifteen million people; it includes a large part of seven great provinces of Russia and around this central famine region there is a region of fifteen million more in which there is a food shortage. This came about, in the first place, by the devastation of six years' constant international and civil war; in the second, by the fatal error of the Soviet government—I do not hesitate to speak thus plainly, for the government itself admits it today—of trying to requisition the surplus production of the peasants all over the country and of prohibiting private trading. Hence the peasants have had no stimulus to produce more than just enough for themselves. The whole agricultural production of Russia has dropped terribly in the last three years because of this fatal mistake. Finally, on top of these causes of food shortage came a drought so real and terrible that there are miles and miles of fields

that were planted in grain in the spring which the peasants have not even tried to enter to harvest.

In normal times the Volga basin is a grain-exporting region, and now fifteen million people in it are crying for help. The government has made an effort to bring food into the famine region from other parts of Russia, but there is no surplus of food in other parts of Russia except, perhaps, in the Ukraine; and in much of the Ukraine the Soviet government is without power. A famous bandit rules there. The government also tried to bring in seed for the fall planting but it succeeded in getting into the peasants' hands only about one-fifth enough seed for a normal planting.

INADEQUACY OF PRESENT RELIEF

What is the world to do to help the Russian peasants at this time? What is it doing? An International Commission has been organized. It has held meetings in Geneva and Brussels, but not one cent of money or one pound of food has been provided by this International Commission. The

Swedish Red Cross is sending in a Red Cross unit. Norway has given one million kronen. The Save the Children League of England has put in Mr. Nansen's hands money enough to buy food for 250,000 children for six months: that is about the total of European relief.

America has a better record. The American Friends' Service Committee has been at work to the best of its ability, doing a beautiful work as far as it goes, but handicapped always by lack of resources. And, finally, the American Relief Administration, under the chairmanship of Mr. Hoover, is now feeding one million children and will be able to do this until the first of next September, the time of the next harvest. But there are four million children who ought to be cared for; and there are the mothers and fathers of these children to be cared for.

The world is letting this people die because we do not send from America and Roumania and Bulgaria, where there is a surplus of grain today, the food to keep them alive. Shall we let this go on?

The American Intervention in Haiti and the Dominican Republic

A Report Prepared by

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FOREWORD

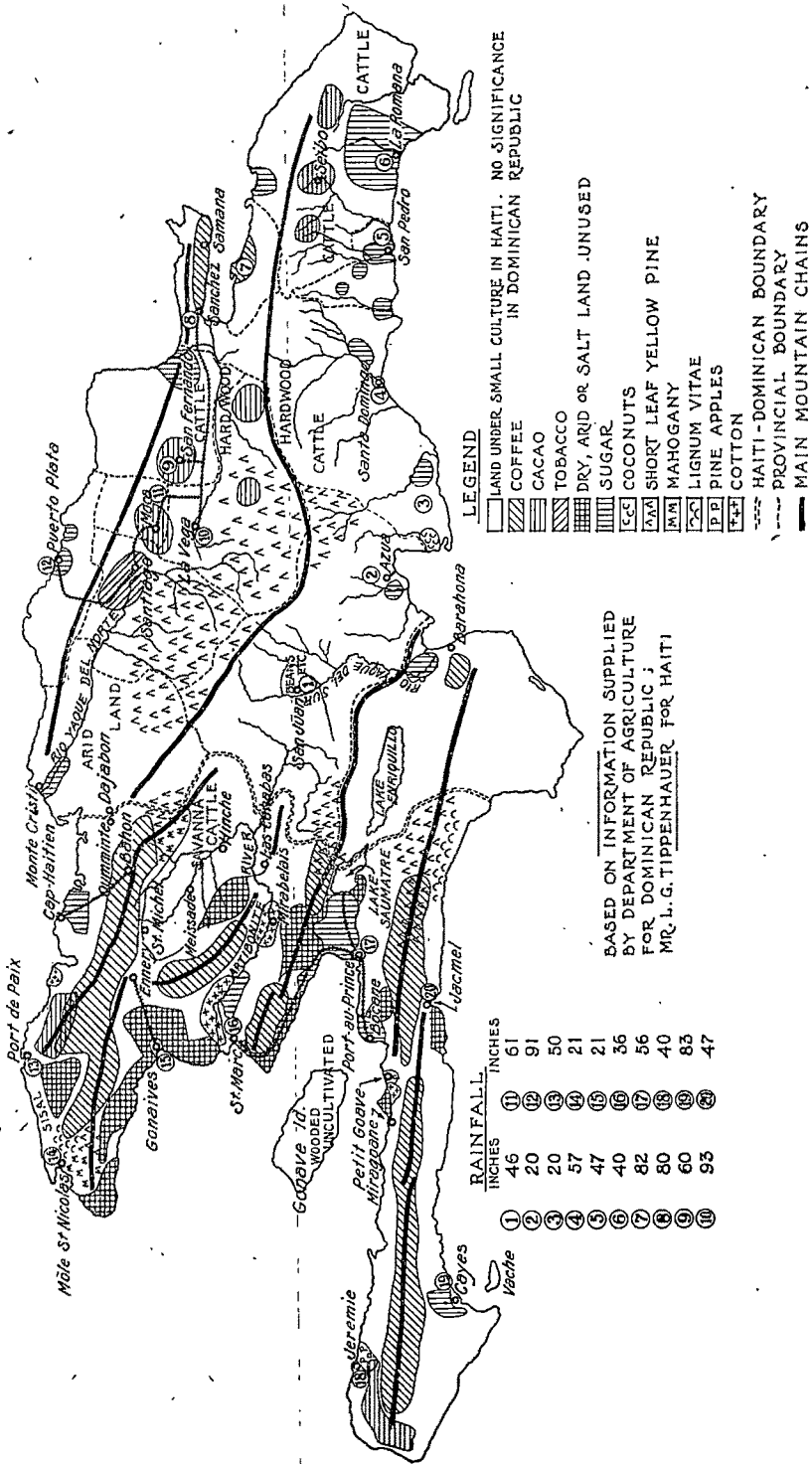
FOR some years past the members of the Board of Directors of the Academy have been convinced that a great national service could be performed if the Academy, in addition to the regular publications, were to undertake special investigations on questions of national interest and place the results of such investigations at the disposal of our members and of the general public. It was with this end in view that the Board decided to undertake a survey of the economic, social and political conditions in Haiti and the Dominican Republic. The public discussions relating to these two republics have contained so much of a political and partisan nature that the Board deemed it important that the public opinion of the country should be enlightened by an impartial and unbiased study of the situation.

The study is one that required a man of mature judgment and thorough scientific preparation. By unanimous agreement, the Board selected Dr. Carl Kelsey, Professor of Sociology at the University of Pennsylvania, to undertake the investigation. Dr. Kelsey has spent nine months traveling through Haiti and the Dominican Republic, and has placed before the members of the Academy the results of a careful and searching analysis of the situation. The members of the Board feel convinced that the results of this first appointment to an Academy Research Fellowship fully justify enlarging the scope of the Academy's activities along the lines of such special investigations, and it is the hope of the Board that through the coöperation of our members it will be possible to establish an endowment fund which will enable the Academy to provide for a series of research fellowships; thus placing at the disposal of the country the results of careful and impartial investigation of the problems concerning which the public opinion of the country is called upon to make momentous decisions.

L. S. ROWE,
President.

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<i>PART V—BOOK NOTES</i>	



Introduction

I REACHED Haiti about the first of February, 1921, and remained until July the second, when I went to the Dominican Republic, staying there until October 22. I saw every important town of Haiti with the exception of Jacmel, and spent two weeks on a trip through the interior. In the Dominican Republic I got a glimpse, at least, of nearly every province. During this time I had opportunity to talk to people in all walks of life. I had no fixed itinerary or set program. I roamed about as opportunity presented trying to see things for myself. I had no official connection of any sort with the government though it was difficult to persuade the natives that an American civilian traveling about was not on some secret mission. While there I read all the best available books written by Haitians or Dominicans, and kept in touch with the newspapers. Perhaps I might add here that if some of my strictures seem severe they can be duplicated from the works of reliable native writers.

Everywhere I was received with courtesy and friendly attentions. Every opportunity was given me to meet men or see conditions. This applies to all the United States officials, both civilian and military, to foreign residents and to the Haitians and Dominicans. I was welcomed in the local clubs of all the larger towns. It is my own fault, therefore, if I failed to get an accurate picture of the situation. Of course, there were many men whom I wanted to meet but failed to see for one reason or another.

It is utterly impossible to try here to thank by name all those who generously gave me their time. Nor can I

even name many of those who opened their hearts to me, lest I be the indirect cause of harm to them. I tried to show them all that I was appreciative of their aid, and to them all I again express my gratitude.

On my return I am again struck by our ignorance. Too many educated people here confuse Haiti and Tahiti. The two islands of Haiti and Santo Domingo appear in questions put to me. "Is the United States in any way involved in Santo Domingo?" was asked the other day by a man of wide reputation. Unfortunately much of the material which has appeared in our press is so grotesque, or deliberately twisted, that the reader gets a very false impression. Our future relations with these countries are destined to be closer than they have been and it is important that we should come to know the essential facts. Is it too much to hope that in the day of the new diplomacy even our public departments may tell us of their operations and their problems instead of waiting until the attacks of enemies put them on the defensive? I shall be well content if I have in any way thrown light on the situation, and shall be grateful to any who will call my attention to errors.

Some of my Haitian and Dominican friends will not only disagree with my judgments but may feel hurt at some of my statements. From this there is no escape and even they will be glad that I have tried to tell the truth as it appeared to me. Some things impress the foreigner differently from the native. I am confident that all will find running through these lines the same friendly feeling which I find in my heart.

Obviously one cannot enumerate the many individual exceptions to all general statements. Haiti and the Dominican Republic are struggling with an age-old problem, the attainment of civilization. No people can

guarantee the financial success of another, or its political success, but we may by our policies help or hinder and my sole desire is in some way to help.

Philadelphia, January 5, 1922.

The Island

ABOUT 1,200 miles south of New York City one will find on the map the island of Haiti or Santo Domingo, considered one of the most beautiful in the world, lying directly between Cuba and Porto Rico to which it is intermediate in size as well. It is some 400 miles in length and 170 in width, but of very irregular shape. The total area is over 28,000 square miles, or a little less than that of Ireland. There are a number of dependent islets, some of considerable size but of little value today, though a few thousand people manage to eke out a precarious existence on the island of Gonâve in the bay of Port-au-Prince.

Topography. As a whole, the island is extremely mountainous, the chains running from the west with a southerly trend with intervening valleys in which rivers are found. The mountain slopes range from steep to precipitous, rising often to more than 3,000 feet, a few peaks reaching 8 or 10,000 feet. These ranges constitute serious obstacles to travel and make roadbuilding both difficult and expensive. Thus the whole southwestern peninsula is a mountain range rising abruptly from the ocean on both sides, with no level ground on the south except the plain of Cayes, and with none on the north until one reaches the neighborhood of Port-au-Prince. Save in a couple of places it is nearly impossible to cross the peninsula. At some recent time, geologically speaking, this peninsula seems to have been separated from the larger island to the north. Southeast from Port-au-Prince there is a low plain extending into the Dominican Republic with sulphur springs on the northern border, and two considerable lakes of brackish and salt water, one

of which is below sea level. Near St. Marc is the mouth of the Artibonite River, the largest in the island. The central ranges which stretch from Môle St. Nicholas on the northwest almost to the most eastern coast form the backbone of the island. These die down in the Dominican Republic, and offer one good pass at an altitude of less than 1,000 feet. South of this range, at its eastern end is a considerable coastal plain, largely of coral formation. North of this range, from Monte Cristi to Samana is a large valley divided into two parts, the eastern section being that to which Columbus gave the name of Vega Real, rich and well-watered, while west of Santiago is found the Yaque del Norte running through an arid region to its mouth at Monte Cristi. There is another low range between the valley and the coast. Although there are many rivers and streams these are the only two in which boats of any draught may run. As a matter of fact, they have never been useful as waterways and such use in the future is doubtful. All the rivers are subject to sudden flood, thus making fording problematical as well as sometimes dangerous. Their availability for purposes of irrigation will be mentioned later.

Rainfall. The influence of the mountains on rainfall is most marked and places only a few miles apart may vary greatly, one being humid, the other arid. The southwestern peninsula is well watered while the northwestern is largely barren desert. The actual rainfall varies from 12 to 150 inches per year. At one place in 1919 rain fell on 16 days only; at another there was rain on 124; while in certain mountain districts 12 inches was the lowest

record for any month and rain fell nearly every day of the year. As a rule the rains are local rather than general and are also of short duration, an all day's rain being a great exception. Most of the rain falls in late afternoon or evening,—little in the morning. In most of the island the natives expect a longer rainy season in the spring, and a shorter one in autumn, the intervening periods being dry. These terms do not have fixed values and the periods are more or less fluctuating.

Climate. Although the island is within the tropics lying just south of the 20 parallel, the proximity of the ocean, the contrast of mountain and valley, the daily winds modify the temperature and the nights are usually delightful. Here again local conditions vary, but taking Port-au-Prince as typical we find that the hottest day of 1919 was on August 6 when the thermometer registered 95° at 1.00 p.m., while at 9.00 that evening it stood at 71°. The lowest temperature recorded for the year was 68° on January 18, and the average was 77°. In the high mountain valley of Constanza frosts are reported during the winter and many an American in the hills at night after being caught in a rain has been convinced that he was about to freeze. The intense glare of the sun coupled with the steady heat makes advisable the use of colored glasses by visitors from the north, while the towns with paved streets seem like furnaces during the days of summer. Violent storms and electrical disturbances are not common although great damage is occasionally done along the coasts by hurricanes, as the wreck of the Memphis lying against the sea wall of Santo Domingo City testifies.

Resources. Most of the reports on the island speak of the wealth of mineral resources. It is true that the

Spaniards found some gold in the possession of the Indians and that today, in a few places, peasants can make thirty or forty cents a day washing gravel. It is true that one can find pretty good specimens of copper and other metals. It is true that small deposits of lignite are known. It is also true that more or less constant prospecting since the time of Columbus has failed to pay its own cost, let alone reveal any great deposit. If there are minerals worth mining their location is not known. Just now there is a possibility of the discovery of oil in paying quantities. The opinion of the best informed men seems to be that the fertile soil rather than metallic deposits will be the source of the wealth of the future.

Animal Life. There are no large wild animals. In some districts the goats run practically wild. Bird life is fairly abundant and practically every kind of bird that can be killed is eaten. Doves of several species are abundant and are highly esteemed as food. Ducks are common locally. The guinea hen is now widely distributed and sometimes becomes a nuisance to the gardener, particularly since the elimination of firearms by the American forces. There are hawks but no buzzards. Other than scorpions, centipedes and tarantulas there are no animals whose bite is at all poisonous. Flies are not numerous but mosquitoes are, and malaria is a prevalent disease. The mongoose has been introduced from Jamaica and, though little known as yet, may be a source of trouble in the future. Fishing is not a well developed industry, largely no doubt because of the absence of ice, yet there are many fishermen along the coast, and the kingfish and red snapper are seen in the markets. Lobsters are common enough though seldom eaten by natives who catch them only for

sale to foreigners. Turtles and crabs abound. Little lizards are everywhere in evidence but the great iguana is now very rare. There are crocodiles in the lakes.

Vegetation. Mahogany and other desirable trees are scattered about, not, however, in large quantities, and most of the remaining specimens are so difficult of access that they hardly repay costs of transportation. There is a promise that some trees little used heretofore may prove available for ties for American railroads. In some of the mountain areas, particularly in the Dominican Republic, there are considerable stands of yellow pine. Most of this is unused. An owner of timber land in Haiti told me that he could afford to cut timber when he could get \$120 per hundred feet. There are a few mills in the Dominican Republic, but lack of transportation still blocks any marked development. Most of the building lumber is therefore imported from the United States. Dyewoods are fairly abundant and in pros-

perous times are exported. No attempt has ever been made to plant valuable trees.

Wild fruit trees of many sorts are found, the mango being the most important. Citrus fruits do well but are very irregularly distributed. Many grapefruit are seen in the markets of Port-au-Prince but in the city of Santo Domingo all the grapefruit are imported from Porto Rico. There are no real orchards on the island, though there are large plantations of bananas and plantains. The coconut palm grows freely but is used locally only, no copra being dried for export. At the altitude of about 1,500 feet a subtropical zone is reached where all sorts of vegetables and fruits of the temperate zone prosper. I have seen Irish potatoes of excellent quality which were grown in the hills near Santiago.

The island is divided between two countries, the Dominican Republic occupying the eastern two-thirds, some 18,000 square miles, Haiti, the western part with some 10,000 square miles.

CHAPTER I

The Haitians

POPULATION. No census has ever been taken but the estimated population of Haiti is 2,000,000, or about 200 per square mile. As a matter of fact there are large areas almost uninhabited, like the arid district from Mole St. Nicholas to Gonaïves, the San Michel Valley and parts of the eastern border; in some places the population is dense, very dense when considered in relation to the agricultural development. There are no reliable figures as to birth and death rates but the estimated population in 1800 was about 550,000 and there has been little immigration. Children are everywhere in evidence but the death rate appears to be very high and the aged do not seem numerous.

Origin. The overwhelming mass of the people, at least 90 per cent I should say, seem to be of pure Negro stock. The upper classes are notably lighter in color and there are small areas where a relatively light color tone prevails. We know that there was a considerable mixture in colonial days and since that time there has been considerable intermarriage between the incoming Europeans and the Haitians so that there are no pure white families save those of recent immigrants. The original Indian stock seems to have left no trace. At first one gets the impression that there are twice as many women as men. This is probably due to the fact that the women go to market, or because the men are working in the fields away from the house. In the old days the men who entered the towns were often seized and made to serve in the "volunteer army," so the women carried the produce to town.

The Syrians. About 1890 there came into Haiti the first of a group destined to play a considerable part in the retail business, the Syrians. At first they bought largely from German merchants and peddled their wares through country districts. Later, finding they could buy more cheaply from the United States they did so. Being shrewed merchants they were disliked by their Haitian competitors and by the Germans. Although they never numbered more than a few hundred they were ordered out of the country by a law of 1913, passed, they claim, at the instigation of the German merchants. Since the Occupation some 200 of them have returned. They claim to do \$3,000,000 business yearly with the United States. A few of them are American citizens. Save stragglers from other islands these represent the only immigrant group which has entered Haiti in many years. This, of course, leaves out of account the marines, French priests and sisters, and other foreigners temporarily resident in the country. Barring these, there are only a few hundred whites in Haiti. The foreigners are all in the towns.

Distribution. All the large towns of Haiti are on the seacoast. The Capital, Port-au-Prince, has about 100,000 inhabitants; Cape Haitien, 17,000; the rest are much smaller. The bulk of the population live in villages scattered through the interior or in isolated cabins. Go where one will in the country, provided agriculture is possible (and in many places where it seems impossible), he will find the "cayes" of the peasants. These are often temporary

rather than permanent structures, for a considerable percentage of the peasants seem to migrate rather freely, clearing a little patch and cultivating it for a couple of years and then wandering to some new location.

Towns. Wherever possible the towns of Haiti are laid out in squares. The streets of Port-au-Prince in the business section are well paved with concrete. Many of its streets are macadamized as are some of the streets in Cape Haitien and elsewhere. In every town there is some central square, often decorated with shrubs and flowers, and a market place, the latter being usually the most interesting spot in town to the stranger. The water systems are not very adequate but the officials tell me that there is difficulty in keeping them in good condition owing to the acquisitive habits of citizens who need pipes and spigots. In older days the towns are said by old residents to have been extremely filthy and one had to walk in the middle of the street and keep a sharp lookout to avoid unexpected shower baths from the second story. The Americans are praised for having "cleaned-up" and for prohibiting the dumping of refuse in the streets. The stores are usually one or two story structures looking like warehouses, and such they are, for the stock on display is generally a small part of that on hand. There are practically no sewers. Surface drainage is all but universal.

Health. The prevailing diseases in Haiti are gonorrhea, syphilis and yaws (which are said to be very common), tuberculosis, malaria, filariasis and intestinal parasites. The country has been very free from epidemics such as yellow fever and bubonic plague. Yet these would probably run through the population like wildfire if they ever got a start owing to the hordes of mosquitoes in many districts and the armies

of rats which infest all the towns and much of the country. Much fun was poked at the Financial Adviser for installing a couple of rat-catchers at Port-au-Prince when the bubonic plague was reported in New Orleans.

Throughout 1921 an epidemic of smallpox swept the country, having been introduced from another island. The efforts of the American doctors to check it at the start were rendered futile by the ignorance of the masses and the foolish prejudice of local physicians. The papers everywhere denounced the Americans saying that it was nothing but chicken pox: but when the deaths began to increase, the criticism became that the Americans were incompetent. Several hundred thousand persons were vaccinated. Thousands on thousands suffered. I have seen smallpox patients deathly sick lying by the roadside soliciting alms from passers-by. Often they were left in their cabins without food and drink. The ignorant peasants were seen vaccinating themselves from virus drawn from active cases. I was a guest at lunch in the home of a merchant in one town only to find later that there was a convalescent case of smallpox upstairs. The death rate in the hospitals was about 6 per cent and no one knows what it was in the hills.

The country is very inadequately supplied with doctors. There are physicians in the towns but none in rural districts. Even the town physicians are often incompetent. One doctor, for instance, in a maternity case was observed taking the only sterile towel he had and spreading it on a chair to protect his clothes. The natives are said to have a good knowledge of local remedies for fevers, but one questions the efficacy in a case of cancer of the stomach of killing and disembowelling a cat and placing the carcass on the patient's stomach. A priest told an

American physician that a woman who feared a miscarriage was placed on a table, a lighted candle placed in the umbilicus and allowed to burn out. One girl under quarantine was observed to take down the flag, carry it with her while she visited a friend across the street, and replace it on her return home. Hospital facilities are inadequate. Exorbitant fees are charged for making country visits. The number of lepers is estimated at 500 or 600, the insane at about 600. There is no special provision for these. Sanitation is unknown and a Minister of the State was indignant when compelled to clean his latrine.

Amusements. The favored pleasures of Haiti are cock-fighting and dancing. Cock pits are found everywhere. Gambling is universal. Dancing in the country is to the thumping of the drum, almost the only music of rural Haiti. These dances get pretty hilarious at times if the rum supply is adequate. The tourist hails every simple dance as "Voodoo," but he exaggerates. In the clubs of the upper class, chess, billiards, poker, whist, all have their advocates, while orchestras provide the music.

Domestic Animals. The average peasant has few domestic animals. He may own a few pigs which are allowed to support themselves and which develop tail, nose and legs at the expense of fat. The burro (worth from \$5 to \$10) is the common work-animal and is also the most valuable for he carries a large part of the goods to market, with the owner perched on top of the load. Cattle are scarce. The horses are small. Save on large plantations, the animals are seldom used for draught purposes. Chickens abound and are all of the small Mediterranean breeds. To judge from casual observation, they are quite as common in the towns as in the country, in part because they

are being kept alive until time to cook. There are a good many turkeys which sell for \$1 to \$1.50 in the Port-au-Prince market. Goats are common.

Land Ownership. There is great, almost endless confusion, with reference to the ownership of the land. There has never been a survey. The government claims to own large tracts but it seems to have no maps or adequate descriptions. There are some titles coming down from early days and the plains appear to be held by relatively few people. Many families profess to have large holdings in the hills but from these little revenue is derived as land is seldom rented but is managed directly by the owner. Inasmuch as squatter titles are admitted under the law any attempt of these supposed owners to take full possession would be most difficult. It seems to be the practice for the peasant to settle wherever he finds land not in use. The settlement of this land question is one of the most fundamental prerequisites to any improvement of conditions in Haiti. Foreigners were forbidden to own real estate until the adoption of the last constitution in 1918.

Agriculture. While there is a good deal of fishing along the coast, and a certain amount of cattle raising in the San Michel Valley and the upper Artibonite Valley and locally elsewhere, agriculture is for most Haitians not only the fundamental but also the sole means of gaining a livelihood. The fact that there are in the country no nurseries, no seed houses, no regular dealers in stock, indicates that conditions are very primitive. A prominent man asked me one day if I had seen one of the many beautiful mountain places. I said "No" and added that I wished he would take me to see some of the best farms. He replied, "There are none," and his answer was almost literally correct. There is no

agricultural school save a rather pathetic beginning near the Capital. Outside of the large sugar plantations, largely though not wholly under foreign control, there is no real agricultural development.

Of course, there are in fact well located and prosperous farmers who may be contrasted with others poorly located and shiftless, but their methods are much the same. A plough is rarely seen even in the plains and would be valueless on most of the steep hillsides. The one universal tool of the Haitian peasant is the machete (almost identical with our corn knife). With this he clears the ground, piling and burning the brush. Then with his machete he digs up the soil a little in just the place where he is to put his seed or plant. He cultivates with his machete by cutting the weeds or stirring the soil about the plants. Axes, hoes, etc., are known but seldom seen. The farmer saves his own seed or gets it from neighbors. Much time and energy are consumed in these processes. Arriving at Port-au-Prince early in February one finds the hills back of the town almost deserted, few cabins being visible. By the middle of March the hills are dotted with dark spots, which are the cleared areas being prepared for the spring planting. Trees are rarely planted. There are not even coffee plantations. All the natives do is to pick the berries from the wild plants descended from those brought in by the French after 1738. A competent observer said that in 1915 not over 1,000 acres in the entire country were well cultivated.

Marketing. The roads of Haiti are lined with women and burros bringing produce to village or town. These women often walk from fifteen to twenty-five miles and seem satisfied if they sell fifty cents worth of provisions. Indeed they might refuse to

sell all their load should you meet them ten miles out for they would thus lose the joy of barter and chatter afforded in the town. All night long they walk, en route to arrive at daylight. Picturesque? Yes, but the waste of human effort in such a system is enormous. At the market they must pay a small fee for the privilege of displaying their wares.

Home Industries. The making of a few sweets like the crude brown sugar called "rapadou," some candles of beeswax to be burned in church by the faithful, some mats of palm, or simple baskets, practically exhausts the list of home manufactures.

Houses. In the towns, the houses range from the crudest of hovels to fine villas and residences, oftentimes with very attractive grounds. At Cape Haitien the houses show the Spanish influence which is not seen in the South. In the country, the cabins are of two types. The more common is a framework of poles interwoven with splints and plastered with mud, with a roof of palms. More substantial structures are made of split palm boards. The acme of style is represented by the metal roof, possessed only by the fortunate. The floor is usually of earth. Doors are of wood, as are the windows, glass being unknown outside of the towns, where it is rare, shutters generally taking its place. All doors and windows are closed at night, but as the house is seldom ventilation-proof no great harm results. In the house there is practically no furniture. Beds are seldom seen and even in the towns are not found in the poorer houses.

Outside the cabin, the ground is very likely to be swept clean and, except in wet weather, present a neat appearance. Often there is some flowering plant, perhaps a cactus hedge. Very likely there is a little shed with thatched roof where the cooking is done,

food eaten, the siesta taken. Ovens are not unknown but the open fire on the ground is more common. In the country brush is used for fuel; charcoal in the towns. The burning of charcoal is quite an industry. For water, dependence is placed on streams. Even in the plains cisterns and wells are very rare. Many of the cabins are a mile or more from any water supply and the water is carried in calabashes. Needless to say that under such circumstances it is not wasted. There are no latrines except in the towns. Near the cabin is probably a little clump of bananas or plantains (almost identical but the plantain is not sweet) and a little garden close by so that it may be watched.

Language. The official language of the government is French but the actual language is "Creole," which is spoken by every Haitian whereas only a small minority can speak French. The number who can understand it is greater. Nearly all the families use Creole in the house whatever else they use in company. Creole is made up of a few hundred French and a few dozen other words from English or Spanish and African, all with an African type of construction. At first it is no more intelligible to the Frenchman than to the American. It is not particularly difficult but varies a great deal in different sections. Creole can be written but its transcription is difficult. In the schools, French is used. In time, as education develops, Creole will be supplanted by French, or will be modified into a French dialect. As it is now, one appreciates the story told in Haiti that the Lord was not satisfied that the French had been adequately punished when driven out of the country so left their beautiful tongue in the mouths of the Haitians to be crucified anew each day.

Religion. The official religion of

Haiti is the Christian (Roman Catholic) and the State assumes the support of the Church. During most of the nineteenth century the Pope seems to have had little control but a concordat was signed in 1860. Prior to that date the priests are said to have been "sans foi ni loi." Since then, practically all of the priests and sisters (some 635 in all) have been sent over from France. There are but two or three Haitian priests. These men and women are generally distributed over the country and are doing a splendid work. Among them are men who served in the French army throughout the war. They form the best informed foreign group resident in Haiti. There are fine cathedrals in Port-au-Prince and Cape Haitien and churches in all towns. There are a few Protestants on the island, some being descended from a company of American Negroes who migrated there many years ago. A few missions are maintained by other groups.

In all but the highest circles the real religion of the people is of African origin with a veneer of Christianity. It is common to speak of all these African rites under the name "Voodoo," a term often overworked. The different tribes originally had different customs but as no tribal distinctions have survived in Haiti the resultant is a blend. Based as African religions were on fear, the propitiation of the deities was very important. With this, as every student knows, was a curious emphasis on sex. The Voodoo dances of today, therefore, often degenerate into sexual orgies. Several attempts were made by the Haitian government to suppress these Voodoo dances but the government dared not be too stringent, and probably was not very enthusiastic in the first place. They are now under the ban of the law but they still exist, though seldom seen by the whites.

Some of the presidents of Haiti have been Voodoo priests: When President Simon left office a fetish of some sort was found in the palace and his successor, though personally not accepting local beliefs, feared to offend so sent for a Voodoo priest (a Papa-Loi as he is called) to perform the requisite ceremonies. To an animal deity the name "barka" is given. On one occasion Simon tricked the Catholic archbishop into performing the funeral services of such a "barka," a goat in this case. The deception was subsequently revealed and more stringent rules for the identification of corpses were adopted by the archbishop. Few Haitians will, for political reasons perhaps, deny the power of such barkas or fetishes.

In the country food is usually placed on the grave. I once witnessed a memorial service for a recently deceased child. The priest was busy with Voodoo rites as we approached the cabin but seeing us shifted to the opposite side of the room where Christian emblems were displayed. Later on food was scattered on the highway and, on inquiry, he told us that he did not know the reason for this but that it had long been a custom of his fathers. Even Christian celebrations like Easter have a strong African infusion. From Friday to Sunday the Lord is supposed to be dead and the devils therefore have their opportunity. To hinder them it is necessary to knock on wood. So all day long there comes rolling up the hills about Port-au-Prince at intervals the reverberations of the faithful.

As is natural in this stage of religious development superstition is most prevalent. No native mother attends the funeral of a child as this would cause another death in the family within a year. Should a funeral procession stop for any reason in front of a

house holy water is secured at once and the house sprinkled. From such naïvetes to belief in charms and witchcraft, the simple mind runs the entire gamut.

Human Sacrifice. The idea of human sacrifice is as repugnant to the high class Haitian as to the American. Many of the best Haitians do not believe that it ever occurs, and are sincere in their belief. Others have told me very positively that it does. Such is the belief of some of the best informed foreign residents including many of the French priests, one of whom said he would put the number at one a year for the entire country. It takes a long time to overcome old customs. Such sacrifices are said to be of children only.

Cannibalism. The eating of parts of human sacrifices is alleged to occur at times. There is some evidence that the eating of parts of brave enemies, not as food in the ordinary sense, but in an effort to gain the qualities admired in the victim, may have occurred. The American marines in Haiti firmly believe that this happened in at least one case, for a native confessed that he had taken part therein. It is also believed by foreign residents to have happened in other instances. A magistrate told an American that he knew a man was convicted in court of this offense in 1909. Only one Haitian admitted to me that he thought it possible, but I was present in a little interior village when a native gendarme accused a woman of having eaten human flesh. This she denied with every indication of horror. If it ever happens it is certainly extremely rare and is viewed by nearly all Haitians just as we view it.

Personal Traits. The first strong impression I got of the Haitian people was their manly self-respecting bearing. There was no subserviency in their

attitude toward the whites. I do not mean that there was any indication of surliness or insolence. Speak to the market woman or the peasant on the road and you are sure of a "bon jour" often accompanied by a tipping of the hat. They seemed willing to do any favor. Everywhere they have borne the reputation of being very hospitable without demand for money. If one spends the night in a country cabin the best is offered and payment very often refused. They are sometimes likely to deceive you for they are inclined to give you the answer they think you want. In general, however, they are honest when charged with definite trusts. It has been necessary in days gone by to send large sums of money by messenger and in sailboats around the coast and I am told that such money was always delivered. The life of the white man or woman has long been secure and the murder of a white has occurred only under great provocation. My impression is that the people are willing to work but their work standards are not ours.

Elsewhere I speak of schools. Here I want to mention the handicap the Haitians carry because of ignorance. The peasant knows from tradition and experience a good deal about the adaptability of soils to crops and seldom blunders. Outside of this he knows nothing of any save the simplest processes. Give him a wheelbarrow and he will transport it on his head. Tell him to take a bicycle three miles and it will go on his head. Show him, however, how to use these articles and there is no trouble. He shows an adaptability to handle automobiles and drives fairly well, often, indeed, becomes proficient at minor repairs, but is an untrustworthy chauffeur both because he is happy-go-lucky and because he appreciates so little the meaning of momentum and other physical

factors entering into accidents. The railroads do not rely on Haitian engineers. One such, asked one day if there was water in the boiler, said it was all right anyhow. He could run the engine without water. He had done so once.

There is among the Haitians an indifference to suffering which seems to us heartless. I believe this, too, grows out of ignorance. When one does not know how to prevent suffering he becomes much of a fatalist. Open sores on animals are frightfully common. Animals are expected to work indefinitely without food. Perhaps fifty per cent of the hack horses in Port-au-Prince cannot take the driver and one passenger up the long but easy hill to the American Club, yet few drivers will refuse to attempt it. Moreover, the Haitian standard of driving is incessantly to nag the horse by jerking the lines. Much of the same indifference is shown by the lower classes to human suffering. They have always seen suffering. Why worry?

The Family. The fashionable marriage is under the auspices of the Church and this is the legal form. As a matter of fact most marriages are what we call "common-law" while in local dialect the girl is said to be "placed." Such placements are often followed later by formal ceremonies when the couple have accumulated adequate funds. They are not always permanent and there seems to be considerable freedom in forming and breaking them. One caco leader is said to have seven camps with a wife in each. Stories are current of men with a dozen or more wives and many score of children. Children are desired and are as often spoiled as abused. A couple will sometimes sell a child for a dollar or two but this involves an idea on their part that the child will be better off in some better situated family than at home.

Domestic slavery of this sort is very common, the child growing up in another house and being the servant of the family, rarely sent to school, and receiving nothing until grown save board and clothes.

Home Life. Among the poorer people there is little in home life save residence under one roof. There are no regular meals, food being taken whenever convenient, or whenever secured. The children are pretty much left to their own devices as the mother is very likely away at market, the father working in the fields. Sometimes in the evening stories are told around the fire or pine torch. Games for children are strangely lacking. In the upper classes the home life is much as in the United States.

Food and Drink. Rice and red beans might be called the national foodstuffs. The peasant eats boiled plantains, bananas, yams, cassava and corn, with whatever fruits he can get. He is fond of salt fish or pork. Sugar cane is highly esteemed. My opinion is that the peasant is underfed.

Aside from water, the native uses coffee which is much better than most of that we get. He is also fond of rum which the poorer classes usually get in relatively crude forms under the names of "taffia" (unrefined) and "clairin" (partly-refined). Drunkenness is not common either because of the use of rum from childhood or because there is not enough money to get enough rum. Of the rum itself there is no shortage. The wealthier classes drink whatever they like as no "amendment" hinders them.

Clothing. Not being liable to sunburn, the young child is seldom hampered by clothes. More precocious here as elsewhere the girl attains them first. Thereafter it is largely a question of the available supply. Formerly the country women coming to

town are said to have worn blue costumes. Now the costumes are made of any material obtainable. The men are more or less clothed, for exposure of the body is no offense, and the washwoman along the streams are often practically nude. This fact makes the complaint of one paper, that the American doctors made the Haitian women bare their arms to the shoulder that they might vaccinate them, seem a bit ludicrous. Shoes are seldom worn by the peasants, and the white man going about in the rainy season would often like to have the feet of the peasant. The clothing of the peasant does not seem overly clean and yet soap in the form of bars about an inch square and thirteen inches long is one of the articles most frequently imported. Bathing is frequent but whether in waste water or stream seems to make little difference. The wealthier classes draw their styles from Paris and are so insistent on formality that at government receptions the men must wear heavy black dress suits.

The Color Line. At first sight no color line seems to exist in Haiti but closer observation reveals it. True, the blackest man may aspire to any position in the country and, if he has enough force of character, may attain it. True, the country has boasted of the expulsion of the white man and the elimination of the white color from the flag. "Black man with money, mulatto: mulatto with money, white man: white man always white man," runs the local saying. The line can be found. The servant is usually darker than the master. Black men can be found in the highest circles but these circles are decidedly lighter in color than the lower. Low grade foreign whites marry at times into high grade native circles. One native father was surprised when advised to find out something about the American

who would marry his daughter. The idea of investigating the white man had not occurred to him. A citizen came to an American official asking the release of a prisoner. He admitted his friend's guilt but said, "Don't you know he is compelled to work under a black sergeant?" "These girls are praying the Lord every night to send them light-colored children" said a French woman. Two Haitian girls educated in France were dumfounded on return to Haiti to find themselves of mixed parentage. A Haitian woman hearing that the Dominicans were of mixed descent plaintively asked, "Then why do they hate us so?" The color line has found its way into politics and there have been "black" parties opposed to "mulatto" groups. I do not know how much emphasis to give this factor. The Haitian writers who discuss it are not agreed. It may be in part a tacit acceptance of a widely held philosophy that the black is the inferior. I was told of one able Negro who could not marry into the lighter group and who, therefore, refused to marry. It indicates in any case a desire to be accepted on a basis of equality which at times is almost pathetic.

The Upper Class. "What did you expect to find when you came to Haiti, Europe or Africa?" asked a charming gentleman one day. Yankee-like, I asked in return, "If I go out into the hills what will I find?" His reply was a smile. Go into any gathering of the upper class, shut your eyes and listen and you will believe yourself in a cultured European gathering. In bearing and courtesy, in interest and appreciation of art, music and literature, in ability to sing, play, dance or discuss, the American finds that he has no advantage. Their feelings lie a bit nearer the surface than ours and voices break forth in angry discussion or boisterous mirth more quickly but they

as quickly subside. Why should not these things be so? Many of these people, who can afford it, have been educated in Europe and go there whenever possible. Their traditions are European, not African. They know more of foreign language than the corresponding groups of Americans and are more likely to talk in English to you than you are to talk in French to them. Like gentlemen they respond at once to courteous treatment and like gentlemen they resent condescension or overbearing manners. Too often they have received the latter where they had a right to expect the former.

The Two Haities. Geography sometimes misleads us. There are two Haities, not one, though the geographical boundaries are the same. The first is of Africa, for there is little essential difference between rural Haiti and Africa. The second is of Europe. The first is illiterate, the second, educated; one uncouth, the other, polished; two languages, two religions. An African mass struggling to keep itself alive in this physical world; a small handful struggling to attain equality with the civilized world! Where can a more striking contrast be found?

The Slave Tradition. Haiti is suffering from a survival of slavery traditions. The French masters directed; the slaves did the physical labor. When freedom came the leaders, usually mulattoes (though the men of action, the military chiefs, have often been black) tried to carry on the old traditions. Educated Haiti does not like work, nor has it ever learned the dignity thereof. To-day your Haitian gentlemen will not carry packages from store to house. Your high-toned Haitian girl will hardly stoop to pick up a handkerchief dropped on street or in church, though she will call a servant to do this. Haiti has no work ideal, and whenever possi-

ble the lower classes follow the example of the upper. You call on Miss A—and are met by the maid of Miss B—who will go one hundred yards to get the maid of Miss A—to have her find out whether Miss A—is in or not, while all the time Miss A—is within call and hears the conversation. The house-owner waits for half an hour for the return of the servant sent to carry a step ladder to the house across the street and finds that the servant has been standing at the gate hoping to find a laborer whom he can hire to return the ladder, for such labor is beneath the dignity of the house servant.

The young man recently given a position as chauffeur at a salary which means comfort to his mother will surrender his position rather than hold the reins of the horse when your wife rides into the yard and finds the yard boy gone. The chauffeur of the machine bringing a friend to get the trunks of an officer and finding only one servant at the house will go a mile to bring up a couple of prisoners with a guard, rather than help carry the trunks. The gentleman in straitened circumstances coming to sell you a few books will arrive empty-handed, and a small boy, hired for the purpose, will come in a few minutes carrying the books. The transaction finished, the former owner of the books will probably depart in a cab for it is not customary for gentlemen to walk in the middle of the day. The only employment, then, befitting the gentleman is clerical or professional labor. To many this means a government position for technical training is not common and in Haiti, as elsewhere, the only place where training and ability are not needed is in government service. Yet work must be done. By whom?

The Masses and the Classes. Haiti won its freedom but in a very real sense traded masters, substituting

mulatto for white. For forty years or more, the rulers had tried various devices of compulsory labor to get the fields cultivated, yet production decreased. They wrote glowingly of agriculture but the state has never done anything for agriculture save to establish a fête and to permit the agriculturist to pay most of the taxes. It puts no tax on the land but it puts a heavy tax on the chief export, coffee, which must be paid by the poor peasant who gathers it. It refuses to tax the manufacture of liquor but it taxes the export of cacao. The burden is all thrown on the poor man. The result of all this is that while there is patriotism in the sense of love of country in the upper classes there is none in the sense of sacrificing self for country nor is there any real appreciation of the basis of public welfare. The country has been governed for the interest of the upper classes.

Public Morality. Haiti has not yet learned that a public office is a public trust. In America we have trouble with individuals who violate this standard, but in Haiti it is expected that the official should “graft” or “faire Calypso” as it is termed. Government offices have been looted by out-going administrations; everything movable in government ships has been carried away. You wonder at the fine houses in Port-au-Prince till you learn the customs. One of the finest was built out of “surplus materials” of the palace; another, from the “remains” of the Cathedral. The negotiation of the sale of a warship to Haiti enabled one official to construct a fine residence. A writer states that 5,000 gourdes was the price for voting in favor of a new constitution and 500 gourdes for a venal contract, and that a deputy who accepted 300 gourdes bragged of his honesty. He adds that one minister demanded 37,000 gourdes for a

house for which only 15,000 had been paid, and when asked for reasons said he had no information to give; whereupon the sum was voted. One woman expressed regrets to a friend of mine that her husband had lost a government position paying \$30 a month, not, as she hastened to add, on account of the \$30 but because the position gave him a chance to make \$1,600 a year. In all matters, then, the legislators have expected their "pots de vin."

The head of one of the oldest business houses assured me that in the old days the real profit came from dodging customs dues; another added through speculation in gourdes. More coffee was always received at Havre than was exported from Haiti. All contracts and franchises had to be arranged and I am told that a corporation, nominally at least, American, gave shares of stock to the family of a high official even after the coming of the marines. An American contractor told me that officials had suggested grafting schemes to him. So it went. Is it any wonder that many Haitians today sincerely believe that American officials must in some way be making extra money out of their positions.

The Wrong Attitude. There are some who will say that all these things are indicative of the capacity of the Negro. Not so, for they have appeared everywhere on earth when similar theories of government have obtained. The fundamental reform needed in Haiti is a change in the attitude of the upper groups.

Government. Barring the short periods when a couple of rulers styled themselves emperors, Haiti has always been a republic. In reality, however, it has always been a military despotism as the thirty-nine military posts would indicate. It has had an ample supply of constitutions from 1805, 1806 (when it was stated that a new and *regenera-*

tive constitution was needed) through the years 1816, 1843, 1846, 1859, 1861, 1867, 1874, 1879, 1889 down to the last in 1918. The "elections" had always been a farce in that they but "elected" the man who had seized the power in his hands as the "saviour of his people." However, as soon as things were settled and the appointments to office made, there were more hungry and dissatisfied people on the outside of the administration than contented within, and the conspiracies started anew. As a rule they did not cause great loss of life or danger and loss to foreigners. One fact in Haitian history not yet adequately explained is why practically all of these revolutions started in the North. The later revolt against the Americans was in the same district. It may be that distance from the Capital has been the chief factor as some have claimed, but others have tried to show that there are differences in the people, in the degree of culture, etc. The first effort of the revolutionist was naturally to get control of the custom houses in order that money might be secured.

The existing organization of the Haitian government is simple. The executive department consists of the President (elected for seven years by the National Assembly, and ineligible for reelection till one term expires) and a cabinet of five members appointed by the President, to wit: Secretaries of "Foreign Relations and Justice," "Interior," "Finance and Commerce," "Public Instruction and Worship," and "Public Works and Agriculture." The republic has two legislative houses: the Chamber of Representatives with ninety-nine members elected by the people and the Senate of thirty-nine members elected by the representatives from lists furnished by the President and the Board of Electors.

The country is divided into five de-

partments in each of which is found a commissar directly appointed by the government and a man of great power for he practically controls all appointments of local officials. Under the departments are the communes, ninety-two in number, each administered by a communal council whose head is called the communal magistrate. The smallest divisions are the sections under a chief of section. The section and communal officials receive very small salaries from local funds arising from sale of market privileges, licenses on business, etc. There is much complaint as to grafting here as well. Practically all local improvements are paid for by the national treasury.

In the judicial system we find at the bottom the justice of peace with a salary of from \$16 to \$20. The courts are the Court of First Instance, the Court of Appeals and the Court of Cassation (the Supreme Court). The presiding judge is paid \$200 per month, his immediate assistant, \$175, and there are nine judges at \$150 a month.

According to all accounts many of the lower judges are incompetent. As one critic put it, perhaps 30 per cent of the judges know the law and 50 per cent can use it; the rest are worthless. The Haitians themselves have little confidence in the courts. One prominent lawyer said he could win any case for \$1,000. He assumed, of course, that his opponent did not have \$2,000 to spend. Some of the higher judges are able men. Haitian lawyers seem to prefer to settle cases out of court if possible.

Cases in Court. Little dependence is placed on the courts by foreign residents. Let a few cases suffice:

A firm arranged with a local agent to purchase 10,000 pounds of tobacco of a certain quality. Being told that this purchase had been made, it investigated and found a very poor quality,

which it refused to accept. Suit was brought and the court ordered payment for the entire amount, even though it was shown that the agent had only about half of the contracted amount in his warehouse.

A British subject paid a garage man \$53 for repairs on an automobile estimated in advance at \$19. Incidentally he found that garage man was using it without his permission. Disgusted, the owner decided to sell the car. He sold it in eight days. Four months later, the garage man demanded \$25 as commission on sale. When refused he used threats, then presented a bill of \$40 for storage. When this too was refused, he brought suit. The owner was not told when the case was to be heard. On the testimony of the garage man, without hearing the owner, the court gave a verdict of \$40 to the garage man plus 100 gourdes (\$20) for moral damages.

Several thefts occurring in a certain boarding-house, a lieutenant of the Gendarmerie arrested all the servants who could have had access to room from which the money had been taken. One servant practically confessed. Another brought suit for damages, claiming her reputation was injured. It happened that the suit would not lie, being brought against a foreign vice-consul, but the lawyer fully expected to win. The only connection of the vice-consul with the case was that he had lost the money and notified the police.

A provoked American struck a native boy. Suit was brought. The American sent a doctor to examine the boy and the doctor returned a bill of \$500 for services. He accepted \$100 in settlement. The American had two short conferences with a lawyer who returned a bill for \$2,500 but accepted \$650 in settlement. The American did not dare let these bills go be-

fore a native court, yet the lawyer had charged more than he was earning in two years.

One merchant imported shirts of a peculiar pattern not elsewhere on sale. One day a man wearing such a shirt entered the store. Examination at the custom warehouse, where the shipment had been left, revealed the fact that ninety shirts had been stolen. The man could not tell a straight story as to how the shirt had come into his possession. Yet, as there was no direct evidence, he was discharged and started a counter suit for moral damages, which had cost the merchant 1,500 gourdes up to the time I left.

An American firm bought a quality of coffee but examination showed that some of the bags contained stones only. Yet the court ordered payment in full.

Attitude towards Property. In Africa, it is stated, food is tribal and not private property. That is the opinion of the Haitian. The universal story of Haitians and foreigners alike is that foodstuffs (and practically anything else) will be stolen. If you see yellow oranges on a tree in Haiti you may know that they are bitter. No sweet orange ever gets that color on the tree. Gardens must be constantly watched. A Belgian told me that on a banana plantation of his compatriots they got no bananas until several natives opportunely died. The peasant leaving his cabin unguarded must bury or carry with him all his possessions, and even then he fears to find the doors stolen on his return. In town everything must be taken off the porch at night and locked up if it is desired to keep it.

I do not mean to imply that all Haitians are thieves but enough to make property somewhat of a nuisance. There is no danger of your automobile's being stolen, for it cannot be hidden, but it may be used without your knowl-

edge. One friend of mine was ordered to pay \$1,000 for injury done to a woman by his chauffeur, when at the time he had supposed the car was standing in front of his place of business. Such an attitude towards property is a serious handicap to development.

Education. The common statement in Haiti is that from 95 to 97 per cent of the population can neither read nor write. A prominent European resident in Port-au-Prince told me that one day he stopped on the street and pretended to be unable to see the hands on the large clock above. He asked passers-by and not until he had reached the seventeenth, a boy of ten, did he find anyone who could tell him the correct time. The Americans have found teachers who could not sign their names or add sums of money up to thirty gourdes; music teachers, who knew no music and could play no instrument. Here too was graft. Rent was paid for school buildings burned years before; salary to a teacher who admitted not having entered the building in years. Although on paper there is a complete system of schools in the country with attendance obligatory and tuition free, there are no publicly-owned buildings. The schools are scheduled to open in October and close in July. On paper, there are some 900 schools but the enrollment is admittedly only about 40,000, and an American who studied them carefully stated that in 1920 the actual attendance was not more than thirty per cent of this number, say 14,000, with as many more, perhaps, in the schools under the charge of the French Fathers and Sisters. This same investigator reported some 1,300 teachers on the list, the average salary paid primary teachers being about \$7 a month, the actual payments ranging from \$4 to \$15. Some of the town schools are pretty good, although there is a feeling that

they have suffered in recent years. It is admitted that the church schools are by all means the best. The average attendance in the public schools seems to be about ten pupils to each teacher. In Port-au-Prince with a population of 100,000 there are not more than 7,000 pupils.

The condition is deplorable and the worst aspect of it to me is not the poverty of teaching material or the inability with present income to pay living wages or extend the system. But I could find few indications of a genuine and widespread belief in public education. There are highly trained and able men who have come up from the public schools, yet those in power are only too willing to tell the people that they will do the thinking for them, an attitude not unknown even in America. What I mean is that until the dominant group see that they and their country are held back by the ignorance of the masses there is not likely to be a great movement in favor of public education unless some outside stimulus is supplied. Many people now favor the extension of education who do not see any way to get it.

So much for the Haitians as they are. Let us now consider the use made of the country, and its future possibilities.

Ports. There are twelve ports open for foreign commerce. Of these only Port-au-Prince is equipped with a wharf. At the rest, lighters are necessary. Some of the ports are practically open roadsteads, dangerous at times. There are two lighthouses, one at Mole St. Nicholas, the other at Port-au-Prince. As vessels are forbidden to enter or leave before sunrise or after sunset without special permission, this second light has little utility.

Railroads. There exist several stretches of what will be a through road from Cape Haitien to Port-au-

Prince which, when completed, will open up part of the interior. At present the road borders the ocean most of the way and was constructed primarily for military purposes. The line from Cape Haitien runs south some twenty-four miles to Baho and handles some local business. The second line in the vicinity of Port-au-Prince handles a certain amount of passenger traffic to Leogane but is primarily a cane-carrying road. The future of railroads in such a rough country is very problematical. A short branch serves as a street car line in the Capital.

Roads and Other Communications. Much headway has been made in recent years but there is great need of roads into the interior, as for instance, the upper Artibonite valley. Some system of trails in the hills, modelled perhaps on that in the Philippines, would be of great value for the bulk of the produce is carried on animals. There are thousands of trails now but they are usually in bad condition.

The larger towns have telephone systems and the country is fairly well provided with telegraph and postal service. There is cable connection with Europe and America and inadequate wireless service. Information spreads rapidly from mouth to mouth. Military men tell me that they never make a patrol or inspection without finding themselves expected at the destination.

Steamer Service. Regular passenger service from most of the ports to and from New York is maintained by the Panama line while the French line has a direct steamer to Europe about once a month. A Dutch line has regular cargo boats for Europe. There are many sailing boats about the coast and more or less regular connections to Santiago, Cuba.

Commerce. The chief exports of Haiti are coffee, cotton, cocoa, sugar

and dye woods. The chief imports are foodstuffs, cloth, iron and steel, and soap. The figures on main articles for the year ending September 30, 1919, are as follows:

<i>Imports</i>	
Wheat Flour.....	\$2,708,772
Rice.....	1,123,658
Meat.....	191,847
Other foods.....	1,334,934
Soap.....	839,756
Cloth.....	4,789,814
Iron and Steel.....	731,227
Tobacco.....	381,844
Liquor, beer and other beverages..	129,212
Automobiles.....	70,996
Agricultural implements.....	32,003
<i>Total</i>	\$17,117,608
<i>Exports</i>	
Coffee.....	\$16,407,233
Cotton (incl. seed).....	1,933,576
Cocoa.....	648,395
Logwood.....	578,698
Sugar.....	506,959
Goat skins.....	369,959
Hides.....	149,992
Honey.....	260,565
Castor Beans.....	231,453
Lignum Vitae.....	70,825
Mahogany.....	4,436
<i>Total</i>	\$21,460,044

The three chief ports for imports are Port-au-Prince (\$9,597,499), Cape Haitien (\$2,301,909), Cayes (\$1,469,278) or \$13,318,687 of the total; for exports, Port-au-Prince (\$7,450,599), Jacmel (\$3,256,580) and Cape Haitien (\$2,933,689). In 1919 ninety-three per cent of the imports were from the United States, while of the exports forty-four per cent went to the United States and fifty-two per cent to France. To some extent this is an indication of war-time conditions, for Haiti has preferred to trade with France, but in part it is an index of a growing dependence on the United States.

Industries. There are thousands of little booths along the roadsides and

of small shops of all sorts in the towns, and there are many tailors and shoemakers. "Big business" is largely in the hands of foreigners. At an early period the French seem to have been dominant; in later years, prior to the World War, the control had passed to the Germans. Germans had built the wharf at Port-au-Prince and one of the railroads. These have passed into American hands, nominally at least. American concessionaires had built the other railroad. There were no other American enterprises in the country of any importance. In recent years a plantation company has invested about \$1,250,000, chiefly in the St. Michel Valley. There is a small factory for the extraction of dyes near Cape Haitien and in 1921 a company was formed to grow and can pineapples, also at Cape Haitien. Several Americans have entered business in various towns. There is a cigaret factory at Port-au-Prince. The City National Bank has purchased the Banque Nationale and become the strongest financial undertaking in the country. The American Foreign Banking Corporation tried to get a foothold but found business unprofitable and withdrew in 1921. The Royal Bank of Canada, a strong institution, has several branches in Haiti.

Poverty. From what has been said it must be evident that the Haitians are poor. This is perhaps the first strong impression the visitor gets. Only a poor people will work for twenty cents a day, the prevailing wage today. Only hungry people will pick and deliver coffee for three cents a pound, which is all the peasants got in 1921. One can even understand the reply of the President in days gone by when complaint was made to him that the Haitian coffee brought a low price in Europe because it was so dirty and full of stones: "But we get three cents a

pound export duty, stones and all, do we not, even though you say that one-third is stones?" "Yes." "Then let the old law stand." Need Haiti be so poor?

Agricultural Possibilities. In spite of the dense population of Haiti which is now beginning to overflow into the Dominican Republic, the soil can be made to produce much more than it does today. The hillsides where the rainfall is adequate might be covered with valuable woods and with fruit trees yielding far greater returns to the cultivator than do the few vegetables he grows today. The wonderful mountain scenery, only a few days from New York, might be made very attractive to those seeking to escape our cold winters. The plains have great possibilities which are unrealized today for their soil is rich. The production of sugar, cacao, etc., is only a small fraction of what it might be. Let us examine them a bit.

One who rides out to Cape Haitien over the plain of the North which stretches from the ocean back to the hills, on one of the highest of which are perched the ruins of the famous "Citadel," will find some 70,000 acres of level land. The soil is of humus and black clay to a depth of twelve to fourteen inches, with subsoil of mixed clay and sand to the water-table at ten feet. There are no stony outcrops. The soil is suitable for cane, pineapples, etc. Yet today it is largely overgrown with woods. Agriculture is possible without irrigation but there are three small streams flowing through the plain. Everywhere the tourist sees ruins of old gateways and stone walls encircling acres of land. He rides down a muddy path in the centre of what was once a wide avenue. He crosses brick culverts built perhaps one hundred and fifty years ago. Before long he realizes that this must at one time have

been a garden spot, and such it was, for here was the centre of the old French culture and from here went enormous quantities of sugar, 24,000 tons in 1796. Probably there are not more than 500 acres of cane here now and practically none has been grown for a century.

The second plain is on the west coast, the Artibonite, between Gonaives and St. Marc with some 20,000 acres of level land. Here the country looks like Arizona. The Artibonite twenty-five miles from the mouth is running about a billion gallons of water every twenty-four hours, entirely unused. Here the problem is difficult for the Artibonite will be hard to dam. It is here the French once installed what appear to have been the first steam pumps in the new world and I am told their remains are still to be found.

About seventeen miles north of Port-au-Prince, the plain of "Arcahaie" stretches some twenty miles along the coast with a width of from two to five miles, some 30,000 acres. This has been under cultivation for a century. There are now some 5,000 acres of cane, 8,000 of plantains and 3,000 of minor fruits. The soil is easily worked but is depleted. There are five small streams, four of which were used by the French for irrigation. The works have not been kept up.

Just between Port-au-Prince and Lake Saumatre lies the plain known as the "Cul-de-Sac," containing some 96,000 acres of which 70,000 are adapted to cane, the balance being mostly low marshes of which 10,000 acres are valuable for pasture in dry seasons. This was entirely cultivated by the French but today 30,000 acres are wooded. By the proper development of irrigation projects, for the rainfall is inadequate here, it is believed that 1,260,000 tons of cane could be grown on this plain. Just west of Port-au-Prince

is the little plain of "Carrefour" of 1,700 acres, 1,200 suitable for cane. Three thousand tons of cane is the estimate of possible production.

A little further west is the plain of "Leogane" with dark rich soil which reminds one of the Mississippi Valley. It contains some 20,000 acres, all good cane ground, with an estimated possibility of 350,000 tons. There is a good deal of cane here but it does not seem to be well cared for, the production seeming to average about ten tons an acre.

On the south shore is the plain of "Cayes," rich soil of some 150,000 acres of which perhaps 10,000 are now in cane. Here the rainfall is some seventy-five inches and irrigation is unnecessary. Within sight of the town of Cayes is the little island, Ile de Vache, with a central plain of some 8,000 acres on part of which cane might be grown, though it is used for grazing land today.

The French in 1791 with 792 mills produced 163,500,000 pounds of sugar.

From the revolution down to 1919 no sugar was exported. In the year 1919-20, 8,798,877 pounds were exported—the product of one American-owned mill.

Haiti's Need. This summary indicates that there are great opportunities in Haiti, if. Now what is this "if"? Primarily, stable government. This is, of course, not the sole factor, but it is one great fundamental which Haiti has lacked. So far as I can learn, it has never been the practice for either Haitians or foreigners to invest their capital in Haiti in any enterprise not under their immediate control. In large measure this has been due to the many uncertainties surrounding property. If there is to be a solid and substantial development in Haiti some way must be found to induce the residents to make investments at home and thus to gain a personal interest in the use of the land, the organization of the markets, and all the other essentials of communal welfare.

CHAPTER II

The Military Intervention

ALTHOUGH the United States had always respected and upheld the independence of Haiti, it became increasingly worried over the situation after 1900. Sam, Alexis and Simon were overthrown and exiled; Leconte was blown up with the palace; Auguste was poisoned; Oreste and Zamor were exiled and the latter killed on his return—all between 1900 and 1915 when Guillaume was killed. Haiti was heavily indebted to French and German bondholders, and, to a lesser extent, to English. These countries were beginning to send representatives

with reference to collection and once or twice money had been collected by force. Moreover after 1912, there came to the State Department evidence that Germany was talking to Haiti about a loan of \$2,000,000 to be secured by certain port rights, control of customs, and rights in a coaling station at Mole St. Nicholas. All of this seems to have happened without the knowledge of the American Minister to Haiti, a man who had had no previous diplomatic experience. Germany denied the charge but added to her denial made in 1914, the state-

ment: "The German Government has joined with other European governments in representing to Washington that the interests of European countries in Haiti are so large that no scheme of reorganization or control can be regarded as acceptable unless it is undertaken under international auspices." This challenge to the Monroe Doctrine could not be ignored. Moreover the incessant revolutions in Haiti were producing a state of anarchy.

During the six months' rule of Zamor in 1914 it was rumored in Haiti that Washington was negotiating with him and the report was used against him. In October, 1914, the Haitian Senate passed the following resolution: "The Senate, after hearing the denial of the Secretary of State for Foreign Affairs, of the existence of negotiations between the National Administration and the government of the United States, declares its satisfaction with his explanation and condemns any kind of treaty." On November 7, 1914, Theodore replaced Zamor as president, and early in December the American Minister (then Mr. Bailly-Blanchard, who for a generation had been secretary of our legation in Paris and knew French perfectly) made certain proposals with reference to the control of the custom houses and on December 10, 1914, submitted a project for a convention. On December 15 this was peremptorily refused and the matter was dropped with the statement that the United States "was actuated entirely by a disinterested desire to give assistance."

By March, 1915, Vilbrun Guillaume Sam was president of Haiti and a commission of two men from Washington arrived, claiming to be agents of President Wilson. Their powers were challenged and they soon left. In May, Mr. Paul Fuller, Jr., was sent to Haiti with the title of Envoy Extraordinary.

On May 22 he submitted a proposal covering the following points:

(1) The United States will protect Haiti against all foreign attack.

(2) The United States will assist Haiti to suppress insurrection by the use of all forces needed.

(3) Haiti agrees not to sell or lease Mole St. Nicholas in any way to any foreign government or the nationals thereof.

(4) Haiti agrees to enter into arbitration agreement for settlement of foreign claims.

To this the Haitian Government replied on June 4, 1915, accepting clauses 1, 3, 4, and adding a fifth to the effect that in case of disagreement with reference to this convention the difficulty should be submitted to the Hague. Clause 2 was changed to read that the United States would facilitate the entrance of capital to Haiti for business purposes, would aid in unifying the debt, in modifying custom guaranties, and in establishing monetary reforms. To accomplish these ends Haiti would employ only trustworthy men in the customs' service and would organize a rural mounted constabulary. If necessary, after consultation between the two governments, American troops might be employed to suppress insurrection in Haiti to "be retired from Haitian territory at the first request of constitutional authority." After exchange of notes Mr. Fuller left on June 5 and further discussion was prevented by another revolution.

Arrival of the Marines. Cape Haitien being threatened by a revolutionary army, marines were landed on June 15, 1915, from the French cruiser, *Descartes*, of the allied patrol fleet. This action forced the hands of the United States, which seems to have had no thought, let alone plan, of active intervention. In July, American marines landed in Cape Haitien from *U. S. S.*

Washington and *U. S. S. Eagle*. The latter was left at the Cape, and on July 26, 1915, the *Washington* sailed for Port-au-Prince. The next day 160 or more political prisoners, including members of many prominent families, were murdered by order of the president, who took refuge in the French legation. The official immediately responsible for the massacre was taken from the Dominican legation and killed. The English and French representatives cabled for warships. On July 28 the president was dragged from the French legation and cut to pieces. Rear Admiral Caperton at once landed marines from the *Washington* and *U. S. S. Jason* was ordered to bring all available men from Guantanamo. Possession of the city was taken with little opposition. On July 30 the French cruiser, *Descartes*, arrived and landed a legation guard. On August 12 Dartiguenave was elected president. On August 16, at the request of the State Department, Admiral Caperton was ordered to take charge of the custom houses and to use the receipts for organizing a constabulary, for public works, for the aid of discharged soldiers and relief of the starving populace, and for the support of the Dartiguenave government. This was done against the protests of the Haitian Government.

A large part of the people were well pleased with the advent of the Americans, but many politicians who saw their plans checkmated were, and have continued to be, antagonistic. Bands of "cacos," the local term for revolutionary bandits, which also included all sorts of lawless and criminal gentry, roamed the hills and offered opposition to the Americans wherever possible. It should not be forgotten that these men lived by theft and robbery, as a rule doing no work, and that the poor peasants of the hills have

suffered the most through loss of stock and crops. In some sections practically all the domestic animals were killed or stolen. The suppression of these bandits was a slow process and the last of the bands was not broken up till the summer of 1921. These troubles have all been in the north central and eastern sections of the country; the whole southwestern peninsula has been quiet almost from the first.

In attempting to judge of what has been accomplished certain facts must be kept in mind. Here is a country where a small number of intelligent, educated and sometimes unscrupulous men control a great mass of ignorant peasants. It is a country where the tradition of having overthrown the flower of the French army still survives and where orators still boast of their ability to overcome any invader, a land where the simple peasants still believe that they can be rendered immune from bullets by charms. The caco leader, Benoit, carried a book of charms with him and yet evidently was a bit skeptical for when urged, only a couple of days before his death, to surrender, he said he did not dare to for his followers would kill him if he admitted his inability to win out. Given the conditions of the country which make life easy and capture difficult it is clear that the suppression of opposition is difficult. So the Haitian presidents have always found.

The fact is, then, that a large percentage of leading Haitians were thoroughly despondent over the situation and were ready to welcome any force that promised to give them peace and order. They fully expected that the Americans would take complete control and work order out of chaos. In fact they expected the impossible. When, for reasons we shall consider elsewhere, the new day did not come promptly and in all its glory, they lost

faith both in the ability and the sincerity of the Americans. There were plenty of persons shrewd enough to capitalize this natural reaction to their own advantage and to foment an antagonism which is by no means as great as it appears. Let us now return to the main course of events as they affect the military forces.

The Corvée System. Within a year from the arrival of the marines the country was quiet save for sporadic outbreaks of cacos, and the year 1917 was relatively uneventful. In the effort to suppress these bandits one of the greatest difficulties was presented by the lack of roads. General Butler, in 1917, revived a law, dating from 1865, requiring citizens to work on local roads and thus initiated the corvée system. The execution of this law and the general supervision of the roadwork was turned over to the Gendarmerie. Prominent American residents of Haiti have told me that they advised against this system but were met with the answer that it was a military necessity. At first there was little opposition. The communities were glad to have roads and coöperated. Soon, however, discontent arose. Instead of working near their homes, men were being taken, sometimes driven manacled under charge of Haitian gendarmes, several days' journey on foot from their homes. It is alleged that in some places no shelters were provided. The Americans made provision for food but later it was discovered that the natives in charge did not give it to the men or did not turn over more than a small part of the money allotted for food. In practice, too, the local head, known as the "Chef de Section," whenever called on for men sent whom he pleased, even destroying the cards showing that given individuals had done their share. He thus favored his friends and punished his enemies.

Some individuals worked two or three months instead of the two weeks theoretically required. Many, naturally enough, took to the hills.

In other cases the mistaken zeal of Americans fomented opposition. An American tells me that one day he was riding with a major and a lieutenant. The major criticised the lieutenant because the men were not working on the roads. The latter replied that it was the planting season and that he had given the men two weeks on their promise to return at the end of that time to the road work. The major objected, saying that he would be held to blame, and insisted that the men be called out at once. The lieutenant refused to break his promise and so was transferred and replaced. This was the beginning of trouble in that neighborhood.

Where the men were tactfully handled and fairly treated, different results were secured. Captain B—— who had charge of the section between St. Marc and Pilboro Mountain not only finished it but, when ordered to go on to the next section, carried some 800 men as volunteers with him. He managed things so that each gang of thirty men had a cook. A regular diet with meat once a day was provided and the men were paid two gourdes (40c) a week. Captain B—— lived with the men and was the only white man with them. He had as high as 8,000 men working under him. The men worked about ten hours a day, work stopping at noon on Saturdays. In the south near Cayes the work was so managed that local merchants contributed considerable money and after the stop order was issued there was a petition that the work be continued. Elsewhere there seems to have been some graft by gendarmes and local officials who let men off on payment of bribes.

It was not the system itself, then,

but the way it was handled that seems to have been at fault. As one priest put it, the worst feature was that it gave the unscrupulous leader the chance to tell the natives that the whites were trying to reintroduce slavery, and that it made the men afraid to come to the towns lest they be seized. So great was the outcry that it was stopped on October 1, 1918. At this time there were no marines in the interior and the commander of the north either permitted or ordered the corvée continued in the Hinche-Maissade district. The facts were discovered by chance, the corvée stopped and the court-martial of the commander advised, but in some way he seems to have escaped. I was told by — that in his presence General — called this man a murderer and a liar and unfit to be in the service but added that for the good name of the Marine Corps he would have him transferred. When it became known that the corvée had been ordered stopped, the antagonism against its continuance is easily understood. Well-informed men have told me that it would have been an easy matter to have got all the men needed for a small payment and that the total cost to the United States would have been vastly less than that of the suppression of the rebellion which was occasioned, though not wholly caused, by the system. In my opinion this was the greatest mistake made by the Marine Corps in Haiti. It should be added that the law itself has not been repealed and that American officers since have been able to get much work done on local roads by appealing to local pride and self-interest.

After January 1, 1919, there was a great increase in caco activity which compelled the establishment of garrisons of marine in the interior, the constant patrolling of the country and many armed encounters with consid-

erable loss of life. It happened, of course, that the men fomenting this activity, and to some extent directing it, supplying arms and ammunition at times, etc., were safe and sound in Port-au-Prince and the Cape. The number of marines in the country was increased from about one thousand to over two thousand and has since been kept at the latter figure. After the foolish and futile attack on Port-au-Prince early in 1920, when the leaders seem to have expected a mass uprising of the people, organized warfare decreased and it became a problem of protecting isolated hamlets against the attack of cacos for, I repeat, the chief sufferers have been the Haitian peasants. Patrols are now maintained largely to give confidence to the people, for the bandits are gone. So quiet and law-abiding are the people that I would not hesitate to go anywhere in Haiti at any time and unarmed. It may be said, then, that at the present time there is no military problem whatever in Haiti, but there is and will continue to be a police problem. It should not be forgotten, however, that only the presence of the marines makes possible the continuance in office of the president and the peaceful functioning of the government. In this connection, let me add that the bills for the Marine Corps are all being paid by the citizens of the United States, not, as many Haitians believe, and as some American writers have intimated, by the Haitian Government.

Gendarmerie. One of the first efforts of the Marine Corps was to establish a Gendarmerie of Haitians, officered at first by Americans with the plan of gradually replacing these by competent Haitians. On July 1, 1921, there were 2,532 gendarmes officered by 16 Haitians and 122 Americans. Four of the Haitians were first lieutenants and it was expected that three others

would soon be advanced to that rank. Privates in the Gendarmerie are paid \$10 per month; corporals, \$15; sergeants, \$20; first sergeants, \$25; all in addition to 15c a day allowance for rations and lodging. The total cost to the country per year is upwards of \$1,000,000. The Americans are drawn almost exclusively from the Marine Corps. To secure good men and hold them it is provided that in addition to their pay from the United States, the Haitian Government should add sums which run from \$250 per month for colonels, \$150 for captains, to \$39 for second lieutenants. The United States Congress passed a special act to allow the men to accept this service. An officer, providing his own car, as many do, is allowed thirty gallons of gas a month and may bring his car in duty free, but has to pay this duty if he sells the car outside of service ranks. As a rule a man occupies one rank higher in the Gendarmerie than he holds in the Marine Corps. This force is scattered in all the communities and rural districts of the country. It is uniformed, the suits being made in the prisons, and is the police force of the nation replacing the old army which was disbanded at the time of the Occupation. It gives great promise of future usefulness.

The Haitians complain that the pay given them is so small that the best grade of men will not enlist and that many cacos and other unfit men are enrolled; also that many incompetent Americans have been appointed. There is a measure of truth in the claims. Yet the pay is not small judged by Haitian resources and compares favorably with that available elsewhere. Many mistakes in appointments have been made but there is a steady weeding out of the unfit. Promotions of Haitians have been slower than many of the American organizers had ex-

pected, but, on the other hand, it has been hard to find Haitians whose standards approached those expected by the Americans. It will take a long time to dislodge the belief that office is to be made a source of personal revenue, and it is difficult to prevent abuse of power. Some of the marines advanced from the ranks to become lieutenants in the Gendarmerie lacked the necessary tact and executive capacity and some of the commissioned men lacked the proper personality. Again some curious errors have been made in Washington. I recall that one captain in the Gendarmerie with a long service record in the Marine Corps, who had been a splendid success and received high praise from his commanding officers, was reduced to the ranks and practically driven out of service by the "plucking board" at Washington, while a lieutenant under him, who chanced to have been sent to France while the captain was kept in Haiti, was given a permanent berth.

On the whole, my impressions of the Americans are very favorable. While there are a few sinecures for the men in a couple of large towns the average officer in little rural communities, living in what we would call a shack, isolated from all white society and deprived of all opportunities for amusement, deserves great credit for his work. Such men are often petty kings and it is to be expected that they fail at times. The evident esteem paid most of them by the natives and the answer one gets if he suggests replacing them by native officers, is sufficient reply to the criticisms. It will be a long time before they can be replaced to advantage. At first the Gendarmerie had various duties but now it is almost wholly limited to police work. The danger that I see is that it may be thought of as a military force whereas it should be a civil force comparable to the mounted

police of Pennsylvania and under *civil* control.

Prisons. Great complaint has been made of the prisons which are under the control of the Gendarmerie. I visited most of them and found them about the cleanest buildings on the island. As buildings they are not very satisfactory but no just complaint can be made as to the way they are kept. Every reliable witness I saw says that they are vastly better now than in the old days. Formerly though the government was supposed to allow ten cents a day for food, little of the money ever reached the prisoners who depended on their families or on alms for practically all they had. The prisons are said to have been extremely filthy as well. The total prison population averages about 2,000 a day. In May, 1921, there were 4,179 inmates. During the year 1920 there were 30,393 prisoners and 1,497 deaths. During the first six months of 1921 there were 9,842 prisoners admitted and 229 deaths. I examined the charts of prison population and found an average of from 40 to 50 deaths a month; but during the summers of 1919 and 1920 the deaths rose to about 68 a month. The chief causes of death were tuberculosis, prison edema (probably beri-beri), pneumonia and smallpox. The epidemic of edema had given the officials grave concern. Though the diet was known to be adequate it was modified and the officials hoped the problem was solved. When one sees the condition of inmates on arrival he does not wonder at a high death rate. I am fairly familiar with institution problems and have no criticism to offer of the way in which the prisons are conducted. The inmates are better cared for than are the great mass of Haitian peasants.

Martial Law. Beginning September 3, 1915, martial law was proclaimed at

Port-au-Prince and was gradually extended to cover the country. Provost courts were established and the press prohibited from criticising the Haitian Government or the Occupation. It was the intention of the Occupation to interfere as little as possible with local institutions but it felt it could not trust the courts. As a matter of fact the provost courts seem to have awakened little antagonism though there is some criticism that their sentences were severe. The Occupation issued an order that no rum was to be sold to marines. This order was, and is, frequently disregarded. In November, 1919, some marines sent a Haitian boy to the store of one Mangones, to buy rum for them. Mangones sold the rum and was sentenced to six months' imprisonment at hard labor. He claimed not to know for whom it was intended and is said to have secured his release through the intervention of the French consul. On September 15, 1920, the provost courts were ordered to sit "only for trial of offenses that are beyond doubt inimical to the United States or a violation of custom laws." That there was some reason for the earlier doubt was shown in the spring of 1921 when a native court freed a customs collector at Ouanaminte who had stolen some \$5,000.

Freedom of the Press. In pre-Occupation days no paper dared criticize the government unless it could get ample protection and editors were often arrested and papers seized. The establishment of a censorship, therefore, had little real effect on their activities but it gave a chance for an argument that might appeal to Americans at home. The star case was the arrest and imprisonment of Henri Chauvet, the editor of *Le Nouvelliste*, the most prominent paper of Port-au-Prince, for publishing on November 22, 1918 an announcement of the impending recall

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of the financial adviser, Mr. Ruan. This case was brought to the attention of the State Department which upheld the court. The amusing thing is that the guess was true.

The fact is that M. Chauvet was punished because he violated an explicit order of the Occupation and in such case we can hardly criticize the court, whatever our opinion as to the scope of the original order. Later on the press restrictions were removed and in 1921 there began a great campaign of abuse and vilification of everything American and of the Dartiguenave government which would never have been tolerated by any previous Haitian régime. The president became much alarmed for his own safety. It was useless to take matters to the courts. The best people and some of the editors did not believe in it but were forced to keep silent or go along lest they be condemned as traitors. One of the leading officials wrote:

You will readily understand the position I have taken when you are made aware that the majority of the judges being opposed to the existing state of things, the government cannot, until the magistracy has been reformed, obtain from them the collaboration necessary to a good administration of justice. From a spirit of contradiction they will always condemn when a case is before them if they believe that those are the occasions in which they can hurt the government or the Occupation. In the same spirit, they, on the contrary, acquit murderers and robbers under the pretext that the prison régime is too severe under the control of the Gendarmerie, meaning in reality under the control of the Occupation.

On May 26, 1921 the following order was issued:

While the freedom of the press and of speech are practically unrestricted, articles or speeches that are of an incendiary nature or reflect adversely upon the United States forces in Haiti, or tend to stir up an agita-

tion against the United States officials who are aiding and supporting the constitutional government of Haiti, or articles or speeches attacking the President of Haiti or the Haitian Government are prohibited and offenders against this order will be brought to trial before a military tribunal.

For this action the commanding officer was thanked by the Haitian president. This was immediately tested by one of the papers which published an article with damaging words replaced by blanks. The editor was arrested and his lawyer tried to convince the court that only the Lord himself could know what the blanks represented. The court thought otherwise and a small penalty was imposed as a warning.

Public Works. Another source of irritation in connection with the Occupation was the taking over by the military officials of most of the public works, which remained in their hands practically till the end of 1917. Even after civilian Americans had been appointed in accordance with the Convention there was seemingly great unwillingness to turn over the control. It is difficult for the civilian to get at the exact situation which led to some of these moves or to pass judgment upon their wisdom. Beyond doubt they caused considerable irritation. For instance, the control of the ice-plant at Port-au-Prince, a German-owned enterprise, was taken over and as there was a shortage of ammonia during the War, all the ice for a time was taken for the hospitals, etc., and for the Occupation. Thus officers' families were supplied while American civilians as well as Haitians went without.

It was the Occupation as well which forced Haiti to take action against Germany and to sequester German property. That there was some reason for this action is clear when we remem-

that the Germans had large control over the business interests of the country. The point I wish to make is that such action would probably not have been taken by the Haitians, into whose prominent families many of the Germans had married.

The Marine Corps. A word is needed as to the personnel of the Marine Corps. The old standards of the Corp were high, both as regards men and officers. At first the Haitian clubs were opened to the officers, who attended the balls and parties, danced with the girls, and to all appearances enjoyed themselves. When the families, prohibited at first, began to arrive, not only did an American social group grow up, centering in the American Club, but a line of social cleavage was created because of the color prejudice. It must be confessed that not all of the Americans treated the natives with due respect and this attitude was resented, naturally enough. Moreover, it was galling to the Haitians to see Americans who had never had a servant at home putting on airs, raising the price of house rents by bidding for desirable houses, riding in automobiles on which they paid no duty and burning gas which they could buy at a little over twenty cents a gallon, while the civilian, native or foreign, was paying from seventy to eighty. Unfortunately, drunkenness was not unknown even on the part of high officials and their wives, while local standards were shocked by the sight of women in automobiles smoking in public. Although such things were infrequent, every incident was told and retold and helped to confirm the suspicion that little help could be expected.

While I saw no American official in the Cercle Bellevue in Port-au-Prince, at Cape Haitien the earlier relations existed in large measure. During the War, with the necessity of sending men

to France, many privates were made officers, particularly in the Gendarmerie. This caused much complaint, whatever the merits thereof. With the close of the War there came the enlistment of a group of young boys of decidedly inferior type to the older men. Both officers and older men commented on this and criticized the Washington government for sending such material to Haiti. This group is being weeded out and the later arrivals are of better stamp. It gives me pleasure to add that with very few exceptions I was very much pleased with the men I met, both officers and enlisted men.

To complete the picture I should add a word as to the location of the marines. Headquarters are at Port-au-Prince and here is stationed the largest body of men. There is a training camp at Mirabelais, thirty-two miles to the northeast, a camp at Las Cahobas, seventeen miles to the east, twenty miles north another company at Thomme. Further north companies are found at Hinche and Maissade, while the headquarters of the north are at Cape Haitien. In this way a large percentage of the men are kept out of the big cities and the average Haitian sees few marines save those with the Gendarmerie.

Atrocities. It has been necessary to give this outline of the history and policies of the Marine Corps before considering the charges of cruelty brought against the marines. There is no charge that any policy of deliberate cruelty has been adopted. All complaints are against individuals. Rumor is common; evidence is rare. The cases fall into several more or less clearly distinct types:

1. Drunkenness and accompanying disorders. Relatively common. The Commanding Officer told me that 90 per cent of his troubles with the men

were due to alcohol. Such disturbances have seldom been the cause of much actual abuse, but have led to fights. In some cases natives unwilling to furnish alcohol have been threatened by marines with guns. One such case came under my personal observation. In this, as in most others where facts became known, the guilty party was summarily and severely punished.

2. Sexual Assaults. Such have been perpetrated just as they were in France by Americans as well as by Germans. I chanced to be present when the first complaint in a case of rape of a young girl of ten or eleven was presented. In this case the man was proved guilty, later, admitted guilt and pleaded insanity: he was sentenced to *fifty-one* years imprisonment on the combined counts. Severe punishment has always been meted out to such offenders.

3. Third degree methods to secure evidence. Admitted. The third degree is far from unknown either in Europe or America. To a considerable extent it must be admitted as justifiable under field conditions. That it can be abused and doubtless has been is evident, but it cannot be judged by parlor standards. It is amusing to find one American civilian taken on a patrol in Haiti becoming so exasperated at the various lies of a woman that he urged the officer in charge to more severe measures and then came home to write up the incident as an illustration of the cruelty of the marines, forgetting to tell his own part in the performance. Where life is involved human passions run high.

4. Deliberate striking, shooting, etc., of escaping prisoners and others. Such things seem to have occurred in some cases. Let a couple of illustrations suffice: A white man riding one day with Captain — saw him spur his horse between two women on way to market, knocking them down and

scattering their wares over the road. Then he rode off laughing. It is not surprising to find this man one of the six or seven officers generally accused of being guilty of criminal attacks. An American told me that an officer out after cacos met five men at a certain place, two of whom were in his, my informant's, employ. He asked them where the cacos were; through fear or ignorance they failed to answer. The officer then shot them all and on his return reported that he had been attacked by 150 cacos and had killed 5 of them. My informant may be wrong but he is sincere in his belief.

I fear we must admit that such things have happened. That is the belief of the best informed men I have met both in and out of the service, Haitians, Americans and Europeans. As a matter of fact, much as we may regret it, every well-informed man knows that they are to be expected. The real question is whether they were abnormally common and whether, when proved guilty, the offenders were punished. Prominent Haitians, French priests and other reliable persons have told me that these acts of cruelty were extremely rare and that more offenses would have occurred, by Haitians on Haitians, had there been no intervention. I fear that the emphasis laid on cruelty is because of the influence it may have in the United States rather than because of sympathy for the victims.

As regards the second point, I think the officials did not let the Haitians know the extent to which men were punished for offenses. The Haitians got the impression that guilty men were shielded. This I do not believe though it is possible that some cases were not investigated with sufficient care. I regret that more searching inquiry was not made in connection with the few officers accused.

The marines themselves are to blame

for some of the criticism heaped upon them. A certain type of man likes to brag of his exploits and of his wickedness. There has been a lot of this kind of thing where the basis of fact was extremely small. Certain investigators have been deceived in similar fashion. Some ex-service men seem to have tried to capitalize their alleged repentance. As I went about the country I tried to observe the attitude of the natives towards the marines. Nowhere did I detect signs of fear or of desire for revenge. On the contrary there was a feeling of respect, often of friendliness.

On the whole I feel that the men in the Marine Corps deserve our respect. We are too ready to believe that they change their character when away from home and among people of different color. I am not trying to dodge responsibility or shield crooks, but to

keep a balance in my verdict. We did much for the boys in France but absolutely nothing for those in Haiti. The fact is that there were many more acts of kindness than of cruelty. The good things have not been advertised to the world. Day after day I have talked with officers and men who are bending all their energies towards helping the Haitians. I have seen peasants going out of their way to call on and bring presents to men who had been stationed in their communities. The opposition to the marines is not all genuine and disinterested. The thief and grafter do not like interference. I suspect that behind all surface explanations lies the resentment against the uniform, the symbol of an outside force preserving order, the reflection upon the inability to control self, which hurts the Haitian's self-esteem. Here is the crux of the situation.

CHAPTER III

The Civil Side of the Intervention

IMMEDIATELY after the election of President Dartiguenave on August 12, 1915, steps were taken to secure a Convention which was signed in Haiti, September 16, ratified by the Chamber of Deputies, October 6, and by the Senate, November 11, 1915. Owing to delay in Washington the exchange of ratifications did not take place till May 3, 1916. In the interim, practical control of Haiti, of government funds and of municipal administration, was in the hands of the Occupation. Since that time the functions of the military have been reduced until now it does little more than "sit on the lid" and preserve order.

The Convention (which is printed in full at the end of this chapter) established a financial protectorate over

Haiti; it introduced a Financial Advice of rather unique powers inasmuch as the Haitian Government agreed to put his suggestions into effect, and yet left the questions as to whom he was immediately responsible, and under what conditions he might be removed, vague to say the least.

This treaty met with much opposition in Haiti but attracted no attention in the United States. Its intention is evident from its text and was plainly understood both by Haitians and Americans. The Haitians were so despondent over their situation and the future seemed so dark that they were willing to accept the help and protection of the United States, the sincerity of whose intentions they did not question, on any terms demanded. Natu-

rally they wanted as little interference with the local government as possible. It is also possible that they thought that later they might evace some of the promises made.

Subsequently some one, the military authorities get the credit, felt that control of telegraphs, telephones, light-house service, and postal service should be in American hands and a nasty dispute arose. In August, 1916, it was agreed that "the operation, management and maintenance of the telegraphs and telephones" should be put under the charge of the engineers nominated by the President of the United States. There have been other difficulties over the postal service and with reference to public education and control of municipal revenues.

The President. President Dartiguenave, taking office in August, 1915, elected for a period of seven years, at once found his position extremely difficult. He was desirous of pleasing the Americans, yet jealous of the rights of the Haitian Government. Many of the steps he took are sharply condemned as illegal by some Haitians, defended by others. Putting the worst possible construction on them, we find they are exactly what all other Haitian presidents have done. There has never been a free and untrammelled expression of public opinion. The group with longest purses and heaviest arms has always won, and the wishes of the governments have been accepted unless the opponents were strong enough to overthrow them. But rebels now had to deal with the American marines and the prospect was not alluring. Dartiguenave then remodeled the government somewhat. He proposed a new constitution which was adopted by popular vote and promulgated June 18, 1918.

The principal new features of this constitution are the land law, men-

tioned elsewhere, and a special article which ratifies the acts of the United States Government during the Occupation; protects Haitians from prosecution because of obedience to the orders of the Occupation; provides that acts of the court martials shall not be subject to revision, but without destroying the right to pardon; and ratifies the acts of the Haitian Government up to the time of promulgation. This constitution was rejected by the chambers and it is freely charged in Haiti that this action was brought about by money supplied by a few men with German connections.

At the time there was no criticism of the way the election of Dartiguenave was managed but latterly it has become the fashion to make all sorts of accusations against it. No proof has been offered so far as I know and the French priests who would have known the facts smile at the charges. Under Dartiguenave, the chambers have been dissolved and the government is carried on by the executive with a council of ministers. The President's enemies make much of this. The truth seems to be that Dartiguenave has done very well in a very trying position. He is a cultured man of long political experience. He has a keen appreciation of the dignity of his position. At times he has not been as strong perhaps as desirable, but he has reason to fear for his safety should any chance remove the Americans.

The first of the treaty officials arrived in Haiti in July, 1916. It is impossible to try to trace the history since in detail but a few points may be mentioned.

Receiver General. The Receiver General deserves much credit for the work of his office. His administration has been honest and efficient. Smuggling, avoidance of payment of customs, etc., formerly prevalent, have been

reduced to the vanishing point. He has enforced the law without fear or favor and has naturally made enemies. He is handicapped by having to administer an antiquated tariff schedule which the government has refused to change. Duties are figured in part in American money, in part in Haitian, both ad valorem and specific, and the figuring of duties is involved and tedious. The law requires absurd details as to invoices and fines for violation are frequent. He is criticized for having introduced non-Haitians in too great numbers. The business houses criticize him for the stringent application of the law in such fashion as to increase immediate returns, perhaps, but to check the future development of business. For instance the older custom seems to have been to charge duties on the basis of the metric pound of 500 gr., but the Receiver General states that the Haitian law prescribes the French pound of 489.50 gr., and charges accordingly. It is claimed that his office attempted to collect an extra duty on the five-gallon gasoline containers, asserting that they had a local market value of 20c, also on glass tumblers in which jellies were shipped.

Trade Handicaps. To show some of the handicaps under which merchants labor and to illustrate the need of change in the laws, not to criticize the present administration, I mention the following:

On two American scales for weights of 1,200 pounds the duty collected was 20 per cent ad valorem, or \$33, where the official schedule seems to call for a fixed duty of \$2.

Machines for agriculture or the preparation of the products of the country are duty free, but a merchant was forced to pay on an engine for running cotton press and coffee sorters 20 per cent ad valorem or \$355.21 in gold and 702.17 gourdes.

Any imported article sent abroad for repairs must pay an ad valorem duty on the repairs which may be greater than original duty on article.

One firm had to pay \$124.71 in gold and 277.11 gourdes for merchandise billed but never received. By the ruling of the department such goods delivered later must pay duty a second time, unless found in a Haitian port.

Fines have been paid in such cases as the following:

Because consular invoice did not state whether the woolen hats were for men or youths.

Because invoice did not say whether handkerchiefs were for head or pocket.

\$27.50 paid in duty on mixed candy instead of regular duty of \$3.31 due to mis-translation on invoice of the word candy as "confiture" instead of "bonbons."

Fine paid on padlocks because invoice did not state that they were of iron.

On lead pencils because invoice did not state "office."

On hosiery because invoice did not say they were for women.

On ink because color black was not stated.

Yet in each of these cases the declaration is said to have contained all the details required by the tariff.

There has been much trouble because of the custom of assimilating articles not specifically mentioned with those they most resemble and charging appropriate duty. It is claimed that the present administration has managed to change assimilations to increase cost. Thus the cloth known as "Prescott stripes" formerly put with nan-kette is now put with "drill" with an increase of 100 per cent in duty. Italian colored cotton drill, formerly put with "drill," now is classified with "Toile de Vichy" and "Bazin" with an increase of 25 or 50 per cent in duty. Automobiles, formerly classified with vehicles, are now put on an ad valorem

basis with great increase in duty. Perhaps the funniest case is that of grape juice which, first imported some fifteen years ago and classified with wine, by the present administration was first taxed *ad valorem*, then as aerated water, and now as cider, resulting in a duty increase of 50 per cent and the stopping of the importation.

Similar complaints are made in great number by merchants all over the country. The importer is likely to feel that the lower rate should always apply; the executive is tempted in the other direction. Wise legislation should remove the uncertainty.

Financial Adviser. Two men have filled the position of Financial Adviser. Whatever their qualifications they have not impressed the Haitians favorably. The present Adviser has been absent from Haiti continuously for almost a year, drawing his salary and per diem expenses of \$15. That this should have been permitted is a reflection on the United States. It is obvious that his recommendations have not been accepted and the Haitians simply refuse to deal with him. One thing is certain and that is that one of the main purposes of the Convention, the determination of the validity of the internal debts, etc., has not been accomplished although six years have passed. Such a condition calls for immediate reform. Of course, many of the criticisms passed on the Adviser are childish. There has been much complaint because of the conversion of \$3,000,000 into francs, for the payment of interest on the foreign debt was made at the rate of 9 francs to the dollar, whereas, a little later, francs were quoted at 14 to the dollar. Just how the Financial Adviser was to know the future is not stated. Equally foolish is the complaint that he fixed the value of the gourde at 5 to a dollar whereas it was intended to be of equal value. Such critics should

consider the present price of the mark. Another suggestion, much condemned, with reference to the control of the importation of money will be considered in connection with the finances.

Engineers. For some reason there was considerable delay with reference to the engineers. Although the first chief engineer reported for duty in January, 1917, he had no assistants or employes and no funds until the end of the year. Until that time whatever work was done was in the charge of the Occupation.

Irrigation was turned over to the engineers in October, 1917; the streets and pavements of Port-au-Prince, in November, 1917. Management of the Haitian telephones and telegraphs was undertaken in February, 1918, and of the lines operated by the Gendarmerie in November, 1918. Roads and bridges were taken over in June, 1919; the water service of Port-au-Prince in April, 1919, of Cayes in April, 1920, of Gonaives, St. Marc and Cape Haitien, in September, 1920.

In Haiti practically every local need must be met from the national treasury. Yet the older law made really no provision for any constructive policy or proper maintenance of public utilities. Not until July, 1920, was an adequate law secured. This organized a corps of Haitian engineers under the chief engineer and put under the control of the chief engineer the construction, maintenance and repair of public utilities, the operation of telegraphs and telephones, the water services of the towns and communes, irrigation projects, the supervision of the engineering works of the communes and the supervision of all concessions, including mines, quarries and power installations. Practically all the public works were found to be in bad repair, owing to neglect, and repair bills have been high and will be for some time. The

money available has been very inadequate. For the three years ending October 1, 1920, \$744,000 had been spent for the repair and maintenance of the public works in all of Haiti and \$625,000 on new construction. The total length of roads is about 750 miles but the sum available for maintenance and repair is only \$13,000 a month. Many repairs have been made and some important surveys and plans. In coöperation with the United States Geological Survey, the work of triangulation for the entire country has been started. Taking all into consideration, the work of the engineers has been very satisfactory and few complaints are made. The only one of any merit coming to my ears was the result of an early decision to replace the old telephone system of Port-au-Prince, which was very poor, with an automatic system estimated to cost some \$40,000 (which will cost much more in reality). So little use is made by the native of the telephone that he looks on this expense as made for the benefit of the foreigner. One or two schoolhouses have been built and many repairs made.

On the arrival of the Occupation there were practically no roads for wheeled vehicles in the country. As a military measure the old French road from the Cape to Port-au-Prince was rebuilt and was thrown open December 1, 1917. On January 5, 1918, the President with other officials, officers of the marines and newspaper men, made the journey from Port-au-Prince to Cape Haitien. This road and the others constructed are dirt roads. There are practically no bridges so streams must be forded. The Limbé River near Cape Haitien is a serious obstacle and in high water cannot be crossed. It has brought a new source of revenue to the natives who have come to demand American prices for pulling cars across. Depending upon the weather, for in the

rainy season some of the dirt roads cannot be travelled by automobiles, one can go from Cayes or Jacmel to Cape Haitien and on to Ouanaminté on the Dominican border whence a road leads to Monte Cristi. The road question is difficult because of the high construction cost of permanent roads. However, a very creditable beginning has been made.

American Representatives. To summarize, there are in Haiti today, representing the United States, the following: 1. The military force. 2. The officers of the Gendarmerie. 3. The Receiver General and assistants. 4. The Financial Adviser. 5. Engineers and medical men. 6. Diplomatic and consular officials.

Keep in mind that the overwhelming majority of the Haitians are frightfully ignorant and wholly occupied in getting the necessities of life, accustomed to obey their leaders without question. Keep in mind also the fact that there is no real middle class. Keep in mind the further fact that a very considerable proportion of the educated classes have been occupied either in staying in office, or displacing those in power that they might get in, and it becomes possible to consider the reaction of the Haitians to the working of the Convention.

It is claimed by the American officials on the ground that, almost from the first, much of the activity of the government has been to defeat the purposes of the Convention. As evidence of this is offered the refusal of the government to accept certain proposals made to it. On November 5, 1918, the United States recommended the adoption of the plan of the Financial Adviser to create a Bureau of Internal Revenue and to establish: (1) Taxes upon certain manufactured articles, liquor, patent medicine, perfumery, tobacco, matches. (2) A poll tax. (3) Documentary tax.

(4) Business and Occupation tax. (5) Tax on rentals of government land and water rights. This was firmly refused.

Land Ownership. Reference has already been made to a change in the constitution of 1918 permitting foreigners to own land. The old constitution read: "No one, unless he is a Haitian, may be a holder of land, regardless of what his title may be, nor acquire any real estate." As a matter of fact this law was circumvented by a mortgage scheme but that did not change the law. The constitution of 1918 reads: "The right to hold property is given to foreigners residing in Haiti and to societies formed by foreigners, for dwelling purposes and for agricultural, commercial, industrial or educational enterprises. This right shall terminate five years after the foreigner shall have ceased to reside in the country, or when the activities of these companies shall have ceased." About July, 1920, a decree was promulgated practically rescinding this provision and giving foreign owners until about the first of July, 1921, to dispose of their holdings. Meantime, some foreigners had converted their old mortgage holding under the new constitutional provision and some foreign corporations had bought a great deal of land for agricultural purposes and had invested large sums of money. In the spring of 1921 a tenant of a foreign owner refused to pay rent for the premises he occupied. The lower court, ignoring the constitution of 1918, based its decision on the old constitution and decided in favor of the tenant. If this decision is upheld or the decree is put in force serious international complications will ensue.

To cite other recent cases: The Receiver General found that certain customs papers were understamped. Investigation at the bank revealed that one clerk alone had charge of this

matter, without assistance, and that understamping had occurred. The court instantly discharged the accused man and compelled the bank to pay his salary in full, even after he was out of the bank. The lawyer of the bank advised payment. In 1918 a native under arrest killed his guard, a gendarme, and escaped. He was recaptured but acquitted. The agent of the Haitian Government said that there was no doubt of his guilt but that no jury would convict in a case involving a gendarme; that is, an official who was looked upon as an agent of the Americans. These cases indicate the unwillingness of the courts to coöperate with the Americans.

Anti-American Agitation. Attention has been called to the necessity of stopping the newspaper agitation in the summer of 1921. This had stirred up so much antagonism that at a public celebration one orator suggested that the statue of Dessalines looked towards the sea and indicated plainly that the Americans might go in that direction. A younger and less subtle man almost openly advocated the resort to force to drive out the invader. It was rumored in Port-au-Prince that a plot to assassinate the President had been made. The President is unpopular because he has drawn a good salary (\$24,000 a year) and because it is felt that he has not always opposed the Americans.

Let me quote as follows from a letter from one of the ablest Haitians I met:

If some difficulties have come between the two governments the cause is that the Haitian Government was not frank enough. The President of Haiti should have frankly accepted the help of the American forces. By obliging Haiti to live orderly he would have been permitted to inaugurate in Haiti all the reforms of which the country is in need and which could never have been attempted. Instead of that he showed himself to the Haitian people as if he were

crucified on a cross. On the other hand, he seemed to have an air of accepting all the American views, discussing them with Americans, but only in order better to deceive them. The result of this sad system did not have to be waited for long. On one side the Haitian people, encouraged by the President to continue their political cliques, their disorderly designs, resisted by every means. On the other side, the American officials flouted by the government kept themselves on guard because distrustful. The relations instead of becoming cordial and sincere began to be difficult and became tense. The country's interests are harmed. . . . When then will stop the treason and the revenge? An agitation cleverly led by the city cacos has begun. The politicians, who are in search of power and who believe that the days have come back when as masters they can pillage the public cash box, have accused the Occupation. They want, under the pretext of defending the rights of the people, to make them rise up and try once more to get a hold of power.

This letter indicates what I know to be true, namely, that the campaign against the Americans is not wholly disinterested and that it is not in accord with the opinion of some able Haitians. Aside from the newspaper agitation which many Haitians disliked, including the editors of at least one prominent paper, the anti-American, or "patriotic feeling," as they prefer to call it, has found expression in the "Patriotic Union" founded, I believe, in 1920, which includes many prominent men. This organization raised a fund and sent three representatives to Washington in the spring of 1921. Their memoir, published in *The Nation*, New York, May 25, 1921, may be accepted as the strongest presentation of the criticisms of the Haitians. Of this memoir, I will let one of the most prominent living Haitians speak. I chanced to be talking with him shortly after its publication. He asked me if I had seen it and proceeded to point out

certain serious errors. I asked him if the delegates knew the facts he stated. He said in substance: "Of course. They are trying to deceive the American public."

I think it evident that a condition of stale-mate has been reached in the relations of the United States and Haiti, which is injurious to the prestige and good name of the former and militates against the welfare of the latter. This impasse is the more serious when we recall that the term of President Dartiguenave is nearly over and that a new president will be inaugurated on May 15. Some betterment of the situation should be sought at once.

Evidence from another side is offered by the fact that Haitian officials still persist in the old system of graft wherever possible. Some opportunities still remain in spite of the efforts of the Americans. A magistrate at E—— barbecued three cattle and gave a big feast. Later it appeared that he had stolen the cattle and that he had also been guilty of other thefts. In addition he had charged a fee of thirty gourdes which he divided with a gendarme corporal for permitting a Voodoo dance that he had no right to condone, for the dance is prohibited by law. Though he was removed from office he exercised enough influence to avoid criminal prosecution, being released by the Commissar of the government. In the budget of the town of P—— there has been a regular appropriation paid of 5,000 gourdes for street lights but the Americans have been unable to locate the lights.

At Port-au-Prince, after a disastrous fire in the spring of 1921 the business men raised a fund and insisted that the government put the fire department under the Gendarmerie. This was finally done and an American fireman who had been brought down sometime before, but whose services had been refused, was put in charge. About

June 1 it appeared that the funds appropriated by the commune, ranging from one to two thousand gourdes a month had been embezzled, or otherwise secreted. Theoretically there were fourteen paid firemen but some had been unpaid for upwards of two years. There were two steam fire engines, both in such bad order that one to two hours was required to get up steam, two chemical engines without equipment or chemicals, a Ford car for the chief with one wheel gone and no tires, no supply of fuel, no ladders, hatchets or axes; but there were some brass helmets and red shirts. The firemen are now paid about \$15 a month and regular drills have been established. Steam can now be had in fifteen or twenty minutes. The new chief put out the first fire reported, with chemicals, reaching the house one minute after the alarm was received, and for his reward the papers published the story that it was a fake fire arranged for his benefit.

Migration to Cuba. What is considered by some Haitians to be the biggest graft in the history of the country has grown up in connection with the migration of the Haitians to Cuba to work on sugar plantations, which became important during the War. Thousands have gone, chiefly from the southwestern peninsula and the northern coast. Several plans have been adopted which need not be described here. All migrants must have passports to which photographs are attached. As photographs are not easily available it is said that the Department of the Interior has a number of pictures on hand which are affixed to the papers, as the only check kept is on the number of emigrants, no comparison being made of the men with the photographs. The passports cost one dollar, but a fee of \$2 extra is paid to facilitate their issuance, while a local official gets two dollars for tending to

the signature. The captain of the boat must pay to the Haitian consul in Cuba two dollars for each person, one dollar of which is supposed to be used for the upkeep of the consulate, the other to be turned over to the Haitian treasury; but I understand that in 1920 nothing was received by the treasury, the Haitian consul by a scheme known as "boxes of cigars" having divided his receipts with the *proper person* in Port-au-Prince. This consul in Cuba also visits the factories from time to time on the pretext of supervising the living conditions, at which times he expects to receive checks of from \$500 to \$1,000 to enable him to make a favorable report. These visits are known as "cleaning up the neighborhood" (*refraichissement de lisere*). (A new consul was sent to Cuba in the summer of 1921 from whom better things are expected.) Meantime the laborers, having no such sums of money, sign notes bearing high rates of interest, pay as much as \$500 at times before they are out of debt, agree to remain several years and are carefully watched. The money is generally deducted from their wages. Further, the factory or plantation is said to underweigh the cane they cut to enable it to meet the extra overhead expenses. It is a disguised slave trade and illustrates the tender interest of Haitian officials in the welfare of their poorer neighbors. It must be admitted that with the war-wages received in Cuba the workers were better off than they would have been at home.

Present Situation. I have tried to point out the chief measures undertaken by the Americans and some of the difficulties they have encountered. I think I have made it plain that the fault of the present situation is not wholly on either side. Local residents, both native and foreign, complain that there has often been a lack of tact and

courtesy on the part of American officials, arbitrary actions and decisions, refusals to take advice or be guided by more experienced men. This criticism is not limited to the military men. Some say that it is due to the number of southerners sent down, but my observation does not confirm this. Some of the complaints are humorous, as in the case at C—— where an official, after a heavy flood, waded through the streets barefooted with trousers rolled up to his knees. The natives said he did it to show his contempt for them, whereas such a thought never entered his head.

More serious, however, is the case of a civilian official who, finding some material which he wanted to use in the possession of a private firm, peremptorily demanded it. On being refused he said he would send marines to seize it and it is alleged that he applied to the commanding officer, only to be told not to be such a fool. Another official tried to refuse service of papers guaranteeing the wages of a servant, as if he were immune to the law. Such incidents have left bad impressions. Other men have lost esteem by trying to bid for the favor of the natives. A market woman tried to compel a French lady to buy a certain piece of meat and finally threw it in her basket, whence it was removed. The dealer called a gendarme whom she knew. He seized and shook the French lady who demanded to be taken to police headquarters to file a complaint. The young officer who heard the story dismissed the gendarme saying it was evidently a case of "fifty-fifty." This officer is said to have been living with a native girl at the time. Later he tried to apologize. On the other hand, many men have gained the thorough respect of all by their courtesy and willingness to hear complaints before making decisions.

CONVENTION OF THE UNITED STATES AND THE REPUBLIC OF HAITI, 1915

PREAMBLE: The United States and the Republic of Haiti desiring to confirm and strengthen the amity existing between them by the most cordial coöperation in measures for their common advantage, and the Republic of Haiti desiring to remedy the present condition of its revenues and finances, to maintain the tranquillity of the Republic, to carry out plans for the economic development and prosperity of the Republic and its people, and the United States being in full sympathy with all of these aims and objects and desiring to contribute in all proper ways to their accomplishment:

The United States and the Republic of Haiti have resolved to conclude a convention with these objects in view, and have appointed for that purpose, plenipotentiaries:

The President of the Republic of Haiti, Mr. Louis Borno, Secretary of State of Foreign Affairs and Public Instruction,

The President of the United States, Mr. Robert Beale Davis, Junior, Charge d'Affaires of the United States of America,

Who, having exhibited to each other their respective powers, which are seen to be in good and true form, have agreed as follows:

ARTICLE I. The Government of the United States will by its good offices, aid the Haitian Government in the proper and efficient development of its agricultural, mineral and commercial resources and in the establishment of the finances of Haiti on a firm and solid basis.

ARTICLE II. The President of Haiti shall appoint, upon nomination by the President of the United States, a General Receiver, and such aids and employes as may be necessary, who shall collect, receive and apply all customs duties on imports and exports accruing at the several customs houses and ports of entry of the Republic of Haiti.

The President of Haiti shall appoint, upon nomination by the President of the United States, a Financial Adviser, who shall be an officer attached to the Ministry of Finance, to give effect to whose proposals and labors, the Minister will lend efficient

aid. The Financial Adviser shall devise an adequate system of public accounting, aid in increasing the revenues and adjusting them to the expenses, inquire into the validity of the debts of the Republic, enlighten both governments with reference to all eventual debts, recommend improved methods of collecting and applying the revenues, and make such other recommendations to the Minister of Finance as may be deemed necessary for the welfare and prosperity of Haiti.

ARTICLE III. The Government of the Republic of Haiti will provide by law or appropriate decrees for the payment of all customs duties to the General Receiver, and will extend to the Receivership and to the Financial Adviser all needful aid and full protection in the execution of the powers conferred and duties imposed herein; and the United States on its part will extend like aid and protection.

ARTICLE IV. Upon the appointment of the Financial Adviser, the Government of the Republic of Haiti, in coöperation with the Financial Adviser, shall collate, classify, arrange and make full statement of all the debts of the Republic, the amounts, character, maturity and condition thereof, and the interest accruing and the sinking fund requisite to their final discharge.

ARTICLE V. All sums collected and received by the General Receiver shall be applied first to the payment of the salaries and allowances of the General Receiver, his assistants and employes and expenses of the Receivership, including the salary and expenses of the Financial Adviser, which salaries will be determined by previous agreement; second, to the interest and sinking fund of the public debt of the Republic of Haiti; and, third, to the maintenance of the constabulary referred to in Article X, and then the remainder to the Haitian Government for the purposes of current expenses.

In making these applications the General Receiver will proceed to pay salaries and allowances monthly and expenses as they arise, and on the first day of each calendar month, will set aside in a separate fund the quantum of the collection and receipts of the previous month.

ARTICLE VI. The expenses of the Receivership, including salaries and allowance of the General Receiver, his assistants and employes, and the salary and expenses of the Financial Adviser, shall not exceed five per centum of the collection and receipts from customs duties, unless by agreement by the two governments.

ARTICLE VII. The General Receiver shall make monthly reports of all collections, receipts and disbursements to the appropriate officers of the Republic of Haiti and to the Department of State of the United States, which reports shall be open to inspection and verification at all times by the appropriate authorities of each of the said governments.

ARTICLE VIII. The Republic of Haiti shall not increase its public debt, except by previous agreement with the President of the United States and shall not contract any debt or assume any financial obligation unless the ordinary revenues of the Republic available for that purpose, after defraying the expenses of the government, shall be adequate to pay the interest and provide a sinking fund for the final discharge of such debt.

ARTICLE IX. The Republic of Haiti will not, without a previous agreement with the President of the United States, modify the customs duties in a manner to reduce the revenues therefrom; and in order that the revenues of the Republic may be adequate to meet the public debt and the expenses of the government, to preserve tranquillity and to promote material prosperity, the Republic of Haiti will coöperate with the Financial Adviser in his recommendations for improvements in the methods of collecting and disbursing the revenues and for new sources of needed income.

ARTICLE X. The Haitian Government obligates itself for the preservation of domestic peace, the security of individual rights and the full observance of the provisions of this treaty, to create without delay an efficient constabulary, urban and rural, composed of native Haitians. This constabulary shall be organized and officered by Americans appointed by the President of Haiti, upon nomination by the President of the United States. The Haitian Government shall clothe these officers with the

proper and necessary authority and uphold them in the performance of their functions. These officers will be replaced by Haitians as they by examination conducted under direction of a board to be selected by the senior American officer of this constabulary, in the presence of a representative of the Haitian Government, have supervision and control of arms and ammunition, military supplies, and traffic therein, throughout the country. The high contracting parties agree that the stipulations in this article are necessary to prevent factional strife and disturbances.

ARTICLE XI. The Government of Haiti agrees not to surrender any of this territory of the Republic of Haiti by sale, lease or otherwise, or jurisdiction over such territory, to any foreign government or power, nor to enter into any treaty or contract with any foreign power or powers that will impair or tend to impair the independence of Haiti.

ARTICLE XII. The Haitian Government agrees to execute with the United States a protocol for the settlement by arbitration or otherwise, of all pending pecuniary claims of foreign corporations, companies, citizens or subjects against Haiti.

ARTICLE XIII. The Republic of Haiti, being desirous to further the development of its natural resources, agrees to undertake and execute such measures as in the opinion of the High Contracting Parties, may be necessary for the sanitation and public improvement of the Republic, under the supervision and direction of an engineer or engineers, to be appointed by the President of Haiti upon nomination of the President

of the United States, and authorized for that purpose by the Government of Haiti.

ARTICLE XIV. The High Contracting Parties shall have authority to take such steps as may be necessary to assure the complete attainment of any of the objects comprehended in this treaty; and should the necessity occur, the United States will lend an efficient aid for the preservation of Haitian independence and the maintaining of a government adequate for the protection of life, property and individual liberty.

ARTICLE XV. The present treaty shall be approved and ratified by the High Contracting Parties in conformity with their respective laws, and the ratification thereof shall be exchanged in the City of Washington as soon as may be possible.

ARTICLE XVI. The present treaty shall remain in full force and virtue for the term of ten years, to be counted from the day of the exchange of ratifications, and further for another term of ten years if, for specific reasons presented by either of the High Contracting Parties, the purpose of this treaty has not been fully accomplished.

In faith whereof, the respective plenipotentiaries have signed the present Convention in duplicate, in the English and French languages, and have hereunto affixed their seals.

Done at Port-au-Prince (Haiti) the sixteenth day of September in the year of our Lord one thousand nine hundred and fifteen.

The treaty has since been extended (1917) to cover the second period of ten years provided for in Article XVI.

CHAPTER IV

The Financial Problem of Haiti

THE treasury of Haiti is in a deplorable condition. The country is, and long has been, practically bankrupt. Under normal conditions the income should be adequate to meet the necessary expenses of a well-con-

ducted government, but Haiti has not been well conducted and its finances have been handled in reckless fashion. It was saddled at the very beginning of its existence, as the price of French recognition, with a debt of 150,000,000

francs (the sum demanded by King Charles Fifth in 1825, of which 30,000,000 was paid, and the balance of which under Louis Phillippe in 1838 was reduced to 60,000,000 francs). Revolution followed revolution. The government borrowed money at ruinous rates to fight the revolutionists; the latter borrowed with promises to repay out of the national treasury if successful. The merchants, French at first, German later, took the risk and reaped rich rewards. Internal claims piled up. The payment of the loans made impossible oftentimes the payments of salaries, and claims therefor were bought up by speculators, payment assured if they had friends at court. Foreign merchants openly encouraged the pillaging of their warehouses during revolutions, knowing that the government would be forced later to make handsome amends. Meantime the government was being robbed by its officials and merchants took advantage of their venality to dodge customs duties. Today it is impossible to state just what the outstanding obligations of the government are, for there are some important unsettled claims. Roughly speaking, the situation as of December 31, 1920 is as follows:

To this sum must be added the floating debt, many unpaid salary vouchers, the guaranty to the railroads, and miscellaneous claims whose total I cannot estimate but which the delegates of the Union Patriotique seem to place at \$4,420,920.

The loan of 1875 bore 8 per cent interest at first. The interest was irregularly paid and in 1880 and 1885 readjustments were necessary. It is secured by a duty of 33 $\frac{1}{3}$ c on each hundred pounds of coffee exported.

The loan of 1896 was arranged with the National Bank of Haiti. Bonds with a face value of 500 francs were issued at 400 to the bank, which sold them to the public at 450. Some of the bonds were reserved by the government and issued on the basis of a 500 franc bond for each 400 of certain existing internal and floating obligations, some of which were bearing 18 per cent interest. This interest is secured by a tax of \$1.20 on each hundred pounds of coffee exported.

The loan of 1910 was contracted with the Bank of the Parisian Union, Paris, Messrs. Hallgarten, & Company, Messrs. Ladenburg, Thalmann & Company, of New York, and the Berliner Haendelsgesellschaft of Berlin. The

FINANCIAL SITUATION OF HAITI, DECEMBER 31, 1920

FOREIGN LOANS			
1875	5%	19,252,500 francs	Interest paid to date
1896	6%	37,638,500 "	" " "
1910	5%	61,576,500 "	" " "
118,467,500 "			
At par			\$23,233,500
At present price of francs (12.5 per \$1.00)			\$9,477,400
INTERIOR DEBT			
Principal			\$7,839,176
Interest due			1,880,712
Total			\$9,219,888
Total debt at present price of francs			\$18,697,288
Deducting paper money which is secured (gourdes 4,057,972)			811,594
Net total			\$17,885,694

loan was for 65,000,000 francs. The banks paid 47,000,000 francs (72.3 per cent of face value) or 361.50 for each 500 franc bond which was offered to the public at 442.50. It is reported that the banks paid 5,000,000 francs to the Haitian officials who signed the contract. Interest on this loan is secured by a tax of \$1.00 on each hundred pounds of coffee exported, and a surcharge of 15 per cent on import duties.

The Paris prices for these bonds have been as follows:

	1875	1896	1910
	300 fr. 5%	500 fr. 6%	500 fr. 5%
1912.....	240-278	500-524	440-475
1914.....	218-258	475-516	395-447
1916.....	235-261	455-508	353-434

Internal Loans. The internal loans are as follows:

1912. Authorized by law of 1911 to pay debts incurred by revolution which put LeConte in power. Face value \$674,000, bearing 6 per cent interest. Sold to public at 89 (included 500,000 gourdes set aside for the account of the generals). Secured by 5 per cent of the gold surtax on imports.

1913. Authorized by law, June 15, 1913. For current expenses, reconstruction of some public buildings and relief of fire sufferers. Face value of bonds to be \$609,902 with interest at 6½ per cent. Offered nominally at 94 but real yield was 78.8 because gourdes were accepted at 3.5 to the dollar whereas the exchange at that time was 4.17 to a dollar. Secured by 5 per cent of gold surtax on imports.

1914 A. Authorized by law, May 29, 1914, to pay debt for revolution which put Zamor in office and included 400,000 gourdes for soldiers. Bonds to total 724,000 with interest at 6½ per cent and sold at 80 but gourdes were accepted at 3.5 per dollar whereas exchange was 4.72, thus making bonds net 59.4. The government secured about 2,000,000 gourdes. If loan were refunded today at face value it would cost 3,620,000 gourdes. Secured by 5 per cent of gold surtax on imports.

1914 B. Issued by Zamor for "extraordinary expenses." Face value bonds 1,500,000 gourdes. Interest 6½ per cent. Gourdes again accepted at rate of 3.5 whereas price was now 5 to a dollar. Issue nominally sold at 80 so real return to government was 56. Secured by part of import duty on tobacco seemingly already pledged for construction of schoolhouses.

1914 C. Issued by Zamor on account "extraordinary expenses" caused by revolution. Total, 1,200,000 gourdes bearing interest at 6½ per cent. Secured by 5 per cent of the surtax on importation and by

export tax of .05c on each hundred pounds of coffee exported.

1914 Consolidated Debt. Law sanctioned November 30, 1915, after intervention. Gold bonds bearing 6 per cent to be exchanged for outstanding obligations dating from 1899 to 1911 for salaries, pensions, etc. Amount outstanding about \$1,111,284. No specific security pledge.

Railroad Accounts. These are the principal outstanding internal obligations. Among the unsettled accounts are those of the railroads. The National Railroad of Haiti received a concession to build a road from Cape Haitien to Port-au-Prince in 1907. The first section was completed in 1912. The bonds outstanding appear to be \$3,544,548 and interest was paid to 1914. The government agreed to pay deficit if profits were less than 6 per cent plus 1 per cent for sinking fund. I have no late figures but in March, 1919, the deficit was \$1,050,000. This is an American corporation with some \$2,500,000 of bonds held in France. The French Government has pressed for settlement. The railroad also has claims for damages done by revolutionists.

The Central Railroad of Haiti took over in 1909 a road organized by German Haitians in 1900. It has lines near Port-au-Prince. Nominally at least, it is now an American corporation. The government guaranteed 6 per cent interest on \$688,000 of a total capital of \$760,000. Payments were made to 1915 but none since. The railroad claims that the government agreed to cover operating deficits.

No payment, save a partial payment in 1916 on the internal debts has been made under the Financial Adviser and the affectation of specific revenues to be used for this purpose has for some unexplained reason been entirely disregarded. This has caused serious hardship to many of the bond holders for in a country like Haiti the government bonds are almost the only relatively safe investment a man of small means can make.

The income of the government is almost wholly derived from the customs duties, the internal revenue in 1919-20 yielding only \$373,675. Because of the local disturbances, followed by the World War these have fluctuated greatly. In 1911-12 under one of the best presidents the country has had the customs receipts were \$6,324,659; but in the year of disturbance of 1913-14 they fell to \$1,103,849. Since that date there has been a considerable increase. In 1918-19, \$5,728,722 was collected and in 1919-20, \$6,414,605. In the year 1918-19, the duty on imports amounted to \$2,425,408; on exports, to \$3,302,174; and of this sum considerably over \$2,000,000 was the duty on coffee exported. The export duty on coffee yields about one-third of the total government income. The \$3 per hundred pounds exported is affected (pledged) as follows:

External loans	\$2.53
Internal "	.05
Subsidies "	.05
Loans for local improvements	.18
	\$2.81 $\frac{1}{2}$
Leaving for government	.18 $\frac{2}{3}$
Total	\$3.00

In 1919-20 the tax on imports yielded 52 per cent of the total revenue: on exports, 42 per cent and the internal revenue 6 per cent. A very considerable part of the receipts from customs is definitely pledged as indicated above, and the remainder is not adequate for the maintenance of the government and the development and construction of roads, bridges, wharves, etc. If we estimate the total revenue at \$6,000,000 about \$3,500,000 is required to meet the obligations of the debt. The collections for the first six months of 1920-21 were only about half of those of the corresponding period of the preceding year. It is, therefore, a matter of paramount importance that the exact debt be determined and improper claims disallowed, as a preliminary to a much needed reform in taxation. In view of the large amount of the bonds of Haiti which are held in Europe it would be greatly to her profit could advantage be taken of present exchange rates.

Currency. The monetary unit in Haiti is the gourde of 100 centimes which was intended to have a par value of 96 cents. Just prior to the intervention the gourde had been subject to violent changes and at one time had fallen to two cents, later advancing to about 20c, a figure which was accepted by the incoming forces and fixed as the rate of exchange. It has been kept at that figure ever since. There are no gold or silver coins but there is a token currency of bronze and nickel. Disregarding the earlier period there have been since 1884 frequent issues of paper money.

One usually sees bills of one or two gourdes. There is no security for the coin but the credit of the government, but through an arrangement with the bank the paper money is protected. The government paper money is being withdrawn and replaced by bank notes. In normal times the circulation in gourdes is about 12,000,000; in nickle, 7,000,000; or in American money, \$3,800,000. This is all needed at the height of the crop season but flows to the banks in the dead season. As roads and transportation facilities, as well as banks, have been almost nonexistent, the transfer of money has been difficult and local exchange rates have been very high. There has resulted, therefore, particularly during the period prior to the intervention, much speculation in the currency which has been a great source of profit to the merchants and some others but for which the poor man has paid. The reports of the Haitian Government will show this to anyone who cares to read them. In recent years a large amount of American money has circulated in the island and is accepted everywhere.

The Banque Nationale. Every community has its scapegoat on which the collective sins may be laid and which everyone is at liberty to curse. In Haiti this rôle is played by the Banque Nationale as it is universally called. Incidentally it functions as the treasury of Haiti and the chief interest of good citizens everywhere is to put as little as possible into the treasury and to get as much out as possible. The greatest check to the misuse of public money in Haiti has been the curious idea of the bank that money must be used according to contract. Naturally the politicians have not loved it.

In 1881 a charter was given to a French company under the title, Banque Nationale d'Haiti. In the early years of this century at least four

of the employes of the bank, two German, two French, forgot these obligations and combined with a number of very prominent Haitians to get a little spending money. The result was the "consolidation scandal" and the reorganization of the bank. The Germans demanded a large part in the reorganization and objected to the inclusion of Americans but the French, holding control, insisted on American participation. The reorganization was affected in 1910 under the title Banque Nationale de la Republique d'Haiti, and the bank remained a French concern, the Germans having to be satisfied with the allotment of about 2,500 shares to the Disconto Gesellschaft out of a total of 40,000 shares. Some 6,000 shares were held in New York by three firms of close German affiliations. At the outbreak of the War the Germans on the Board of Directors resigned and their interests were taken over by the National City Bank, which had purchased some 2,000 shares about 1911.

Shortly thereafter the French arranged with the National City Bank for the taking over of the management. In February, 1920, arrangements were made to buy the French stock and to apply for a new charter to be granted the National City Bank. The bank is still operated under the French charter as the Haitian Government has as yet refused to transfer it. The director at Port-au-Prince has never been an American, though the assistant director is. The present director is an Italian; his predecessor was a Frenchman. The Americans had nothing to do with the privileges granted the bank by its charter, or with the obligations laid upon it.

In making the loan of 1910 the Haitian Government agreed that the money pledged for its security should be handled by the Banque Nationale and that 10,000,000 francs of this loan

should be devoted toward the retirement of all the then issued paper and nickel money. This agreed with the charter given the bank which made it a bank of issue, the government agreeing to withdraw its paper. This charter also made the bank the collector and disbursing officer of the moneys of the government and as such it was functioning when the Occupation took place. The bank had entered into the most solemn pledges not to permit funds to be used except for the specific purposes provided in the laws. From 1911 to 1915 several efforts were made by the parties that chanced to be in power to get hold of these trust funds and divert them to other channels.

In 1914 under Zamor a law was passed suspending the retirement of paper money, the money thus secured to be used for "current expenses." The bank on the advice of its Haitian lawyers refused to recognize this law or pay out the money except as pledged.

The \$500,000 Transfer. Theodore replaced Zamor in November and managed to stay in power about three months. Being in desperate need of money he determined to get some of the funds he knew were being held at the bank under the convention of 1910. But his necessities were just as well known to the local officials of the bank who took the precaution to advise the New York office of their fears. They were told to prepare the money for shipment to New York. Then the New York office was advised that the Port-au-Prince bank did not dare try to move the money from the vaults lest it be seized en route. Here the United States was asked to lend its help and the *S. S. Machias* was sent for the money. The Haitian Government demanded the money. The French director, thoroughly frightened, wanted to yield, but a young American assistant shut the vault and defied the

officials. Crowds filled the streets. The French manager fled to the French legation. Just then, December 17, 1914, the *Machias* arrived and the marines loaded some \$500,000 on board and took it to New York where it was placed on deposit, drawing interest until 1919. At that time a monetary reform agreement was executed between the government of Haiti and the bank, the first article of which read—"The bank will bring to Haiti and keep on deposit to the credit of an account which shall be known under the name of 'retirement fund' the balance of the 10,000,000 francs of the loan of 1910, including the \$500,000 transported to New York in December, 1914, increased by interest at the rate of 2 per cent per annum on that sum from December, 1914 to December, 1918." This sum with other sums accumulated in trust funds, amounting in all to \$1,735,664.89, was to be used to retire the outstanding paper money estimated at 8,877,972 gourdes at the rate of five gourdes to one dollar. This was done.

This is the true story of the transfer of which the delegates of the "Union Patriotique" (see New York, *Nation*, May 25, 1921) said that the purpose was "in order to force the Haitian Government to accept the control of the custom houses by systematically depriving it of financial resources." And later, "This amount is still in the United States." Now these facts are not unknown in Haiti and must have been known to the writers of the *Memoir*, or else they remind us of the story of a little girl sent to an institution to have a mental test. The psychologist reported that she was backward, but not feeble-minded. Seeing her at home again, a playmate said: "Jennie was sent to an idiot asylum but couldn't pass the entrance examination and was sent back home." The fact is that the courage of one

young man prevented the Haitian Government from violating its solemn pledge. Incidentally the most prominent Haitian lawyers supported the stand taken by the bank.

Struggle for Bank Charter. The alleged reason for the refusal of Haiti to transfer the charter of the bank to the City National Bank was the insistence of the United States Government upon a clause to read: "To avoid the possibility of any currency crisis during the period of retirement of paper money and as long as such retirement shall be in process the government obligates itself to prohibit the importation and exportation of non-Haitian money except that which might be necessary for the needs of commerce in the opinion of the Financial Adviser." I am informed that this suggestion was considered at a meeting in Washington attended by representatives of the State Department, by bankers from different parts of the country and by the French representative, M. Casenave, and agreed on as necessary.

The true reason is that the Banque Nationale has agreed to issue bank notes to replace the government paper money and has agreed to keep these gourdes at a rate of five to one dollar. A combination of hostile bankers or speculators free to import United States gold might influence the exchange and make it impossible to keep this rate. No exception was made of the Banque Nationale which was affected by this law as well as the other banks. A violent opposition broke out in Haiti led by the local representatives of the Royal Bank of Canada and many protests were made, signed by some American business houses including the American Foreign Banking Corporation. The reason given for the opposition was that it would give the Banque Nationale a monopoly of importation and exportation and force the other

institutions to buy exchange at any rates it might fix. The bank, however, was ready to establish a fixed rate so this argument does not hold.

Inasmuch as the Financial Adviser had control and not the Banque, this objection could hold only on the assumption of improper collusion between the Banque and the Adviser. Some of the American business men and the British Minister later stated that they signed this protest under misapprehension of its wording and intent. That there was some reason to anticipate such speculation is evidenced by the fact that when it was known that the Banque Nationale could not get the new bills ordered in the United States as promptly as expected one other agency managed to collect 200,000 gourdes of the old bills or about one-sixth of the total. I suppose they were starting a museum. Now, there may be valid objection to the proposal. I am not an international banker and do not know. I am satisfied, however, that a large part of this opposition was not disinterested and I believe that antagonism of the government to the Banque and to the Financial Adviser is the real cause of its objection to the proposal.

The Banque Nationale, besides its headquarters in Port-au-Prince, has branches in the eight principal towns of the country with agencies in several smaller places. It receives from the government $1\frac{1}{2}$ per cent on the total receipts and disbursements, which is probably much less than the government would have to pay if it established its own agencies. This payment will be less if the new charter is granted. While the Banque is a money making institution, at least I hope it is, it is compelled by its position to do many things which bring no revenue. For instance it has charge of the issuing of postage stamps, supplying the proper

agents throughout the country, and collecting the money. For this it receives nothing, although this service costs the bank some \$15,000 a year for clerk hire. It also tends to the surcharging when it is found that certain issues are too large. Formerly this was done by government officials at great profit to themselves but not to the country. Owing to the depression in 1921, nickel flowed into the bank until it had something like \$700,000 tied up, on which no interest could be earned, and the bank vaults were overflowing. Finally it had to refuse to receive it. There was no legal obligation to so receive it and yet the government found fault with the refusal.

I have no connection with the Banque Nationale and have never met its president, but, in view of the wild stories that have been circulated by Haitians, and some Americans, of the evil character of the bank and its influence on the United States Government, it is my duty to tell what I found. I should add that in the proposed charter to be granted the National City Bank a number of modifications have been made in the privileges which are all to the interest of Haiti. I see no fundamental difficulty in arranging things so that Haiti may be glad to avail itself of the Banque's services in the future. I must confess that I should like to see

the resident director an American and this I say with no thought of criticism of the very able director now in charge, Mr. Scarpa.

An American Loan. One of the things confidently expected by the Haitians from the Americans was a loan. I was frequently told that a loan had been promised in the Convention of 1915, but this is an error. As a matter of fact such a loan seems to have been expected by the American officials. I am informed that in April, 1917 the Secretary asked for bids on a loan of \$30,000,000 and that two were received. It is stated that these negotiations fell through because of the opposition of the Financial Adviser to certain suggestions of the French Government. There have been negotiations since but the details have not been made public. This amount appears to me excessive but if the proper arrangements can be made between the two governments I should feel that an ample loan on favorable terms would go a long ways not only towards establishing Haitian finances on a sound basis but as an evidence of sincerity on our part and as partial compensation for whatever mistakes and failures we have made. I have already indicated my belief that a reorganization of the taxation system of Haiti is imperative as a basis for good government.

CHAPTER V

A Summary and Some Suggestions

THE *Haitian Attitude.* Haiti is sensitive, oversensitive, perhaps. Her pride is hurt. Under such conditions people are always extreme in their reactions, and likely to be hypercritical. Much of the antagonism reported as coming from the Haitians is a smoke screen to cover their feelings.

With few exceptions, the Haitians are not antagonistic to Americans but they are critical of the policies of our government. What are these criticisms?

1. Incompetency of our representatives.
2. Uncertainty as to intentions of the United States.

3. Failure to settle internal loans and to make a new loan.

4. Arbitrary actions of both marines and civilians.

These are the underlying complaints. Now, to influence the people of the United States the arguments advanced may be quite different. We must not forget that some Haitians are trying to manipulate the situation to their own advantage and to deceive their fellow compatriots as well as us. What then is the real basis on which the complaints are founded.

Just now Haiti is in a financial depression. Her merchants are overstocked with goods bought at high prices. There is evidence that American firms dumped a good deal of merchandise immediately after the Armistice and recklessly extended credit. The price level of the products of the country is very low. Not being international financiers, the people listen to the agitators who tell them that this is the result of the American Occupation. The Germans are returning and we must expect that they will not always be friendly to the people who forced them to leave the country. The holders of the internal bonds have suffered both because the interest was not paid and because there is no market for the bonds. The provisions in the loans setting apart certain revenues for their security seem to have been entirely disregarded by the American authorities. This is one side of the situation.

Haiti feels that she has surrendered many of the attributes of sovereignty without securing corresponding benefits. She points to the work of Wood in Cuba, of Taft in the Philippines, and asks why she has not been favored with men of like calibre. She forgets the effect of the War upon the United States and the world-wide financial crisis. Nevertheless, while there may

be some measure of justice in this complaint on which I do not pass, for I cannot enter into personalities, I may be permitted to add that in my belief no man could have made a success under the existing conditions. That is to say that I believe the responsibility for the development in Haiti rests primarily not upon the shoulders of the men sent to Haiti but upon the government at Washington. In the opinion of Haiti, while entering professedly upon a program of financial control in the island, we have indicated a desire to exercise wider control. This fear has been exploited by politicians to the extent of their ability and they have found agitators in this country to assist them. Some have attempted to give this a political cast and to throw responsibility on the Democratic party; but I think it is time that we stated openly that there is no partisan policy in this country as regards Haiti.

Haiti was rather inclined to welcome the marines but she wants to know why they are kept in the country after the problem has ceased to be military. She feels that their presence is a constant pressure to force the government to accede to any demands made. Leading Haitians do not emphasize the "atrocities" of which we hear so much. They believe many occurred but recognize that cruelty is not an American trait or policy. It is not the marine, it is the uniform, the symbol of outside control, which irritates.

The Haitian Dilemma. A southern writer on the race problem in the United States once said that there were but two solutions: The first was the removal of the Negroes to some other country, which was impossible; the second was race amalgamation, which was unthinkable. Haiti is in a similar quandary. She is afraid the United States will not remove the marines (this indicates an inability to maintain

self-control, which is galling). She is equally afraid that the marines will be removed (that means revolution). Intelligent Haitians all think, whatever they say for publication, that revolution will occur if the marines leave. They would however welcome their removal from Cape Haitien and Port-au-Prince, say to Gonâve Island a few miles away, so that they could appear at short notice and yet be out of sight. My guess is that a free and honest expression of Haitian opinion would show 90 per cent in favor of the continued maintenance of order by the United States; but opinions differ as to the best scheme.

American Accomplishments. To change the viewpoint for a moment, what have the Americans accomplished in Haiti?

1. The maintenance of order.
2. Establishment of the Gendarmerie.
3. The honest handling of revenues.
4. The beginnings of roads.
5. The regular payment of government employes.
6. The cleaning up of the towns and the beginning of sanitation.
7. The maintenance of a fixed exchange rate of gourde and dollar.

Order is fundamental in good government. Even the much regretted caco trouble may be of great future value if the people have learned that rebellion does not always pay. The Gendarmerie, well-paid, is the beginning of an adequate police system. While the roads are far from perfect no one questions their value. Revenues have always been inadequate. Formerly the government employes were irregularly paid and the bond holders always paid. Now all employes receive their pay, a matter of no small importance. Only a small beginning has been made in sanitation, but the first steps are always most difficult. A system of gov-

ernment engineers holds great promise. Few Haitians seem to have realized what it has meant during the years of financial readjustment to have the support of the United States to their exchange. A glimpse of the experience of Europe and South America should be enlightening in this regard. What would the gourde be worth today were it not for the Americans? Incidentally we may note that the presence of two thousand marines with regular incomes, a large part of which is spent locally, has meant a great deal to merchants and workers of the country. Granted these things, the American achievements are not specially creditable to the United States. We have signally failed on some of the big things such as reorganization of schools and finances. Why, Washington must explain.

What Haiti Wants. In all countries there are demagogues who want freedom of action accompanied by freedom from responsibility. There are many such in Haiti. But such a program will not work in a world of inter-related peoples. We are vitally affected by the actions of Haiti and we cannot be indifferent. This the leading Haitians recognize. What they want is that we should "make good" in our control of Haiti.

Passive Resistance. Haiti has decided that the present program does not work. She has accepted a policy of passive resistance and is in a position to block most of our efforts. From this situation relief must be found.

The Convention. One of the starting points for trouble is in the Convention under which we are working. It is an illustration of the old type of diplomacy from which we are trying to escape in that by "diplomatic language" it purports to do one thing while seeking to accomplish another. Its intent was to give the United States the temporary control of the situation in order that

Haiti might be set on her feet and the way prepared for a real independence later. It was desired to do this while preserving as far as possible the Haitian Government. This desire, however, led to the failure to give to the United States such a position in Haiti that its position could not be a matter of dispute. It set up several more or less coördinate officials, all representatives of Washington, directly responsible to no one head. The American Minister, the commander of the military forces, the Financial Adviser, the Receiver General, the engineers, are all independent. In actual functioning, regardless of their individual merits or personal relations there has been no adequate attempt to achieve common ends. Each for himself is carrying out his duties in accordance with his own ideals, with little conference with the others and with less clear understanding of what Washington is really trying to do. Unless the American government organizes its representatives under some one head, military or civil is unimportant provided the head be an executive, gives them a policy and backs them up, the present Convention is unworkable. It is doubtful now if modifications can be secured. Such modifications are not necessary provided Washington will take a firm stand and will so organize its efforts that constructive results may be secured. It is difficult to understand why Washington, having secured what it wanted, did not proceed to make its will effective.

What Might Have Been. Leading Haitians, Americans and other foreigners resident in Haiti tell me they think that other representatives at the outset might have avoided the present situation. We are, however, confronted by present facts not past possibilities. A change of personnel now is of doubtful value unless the other changes be made.

Foreign Opinion. We should not forget that foreigners resident in Haiti, no matter how critical they are of past performances, are practically unanimous that America must stay in Haiti until a new generation of Haitians, with different ideas of government are ready to assume charge of the ship of state. The collective judgment of these men should be carefully weighed in forming our policy.

What We Might Do. I have never met an American who wanted to absorb the country of Haiti. I know no one who desires to destroy the Haitian Government or who has any wish save that in the future it may prosper and be completely independent. The United States has guaranteed the independence of Haiti, and I have no doubt will continue to do so in the future. Hitherto, however, we have been content to let things take care of themselves. Now we are confronted with the necessity of some definite policy. Even the most zealous advocates of a "self-determination policy" might be brought to see that a given group has "self-determined" its present inability to stand alone and maintain international obligations. Our duty to the people of Haiti is not fully met by accepting at face value all the statements emanating from its upper classes. The world judges by performances, not by words. If we believe that we have an obligation to help Haiti we must carry out our belief regardless of the protests of selfishly interested politicians, there or elsewhere. But we must not be satisfied with words or a purely negative program of "protection." There are many things we might do. We might as a nation refund the Haitian debt. We might admit the products of Haiti on the same terms as those of Cuba, for why should we discriminate between two islands in almost identically the same situation as regards our markets?

A clear declaration by Congress of our intentions with reference to Haiti might clear the atmosphere there. I do not believe there is any difficulty between Haiti and the United States which cannot be amicably settled.

The Option. No one knows the future. No one can be certain of the accuracy of his own ideas. It seems to me that today we are confronted with

the necessity of a choice between two courses, simple yet complicated: complicated because they must rest on continuity of program. We can admit the impossibility of helping Haiti under existing conditions, and withdraw, or we can declare our program, organize our forces, and make good. My humble advice to the United States Government is then: Get in, or get out.

CHAPTER I

The Dominicans

THE total area of the Dominican Republic is over 19,000 square miles, or somewhat more than the combined areas of the states of Vermont and New Hampshire. Running east and west almost in the center is the great central range whose highest peaks rise to 9,000 or 10,000 feet and where valleys like Constanza can be found whose elevation is over 3,000 feet. This range is wooded, has a heavy rainfall and is consequently the starting point of many rivers whose general course is north or south; but the streams on the north all turn east or west, finally reaching either the Yuna to empty into Samana Bay or the Yaque del Norte to find outlet near Monte Cristi. The districts on each side of this central range are quite different. To the south in addition to a wide territory more or less unoccupied, both because of small population and distance from market, are areas like that near San Juan, which will become centers of general farming some day. There are wide stretches of ground used only for grazing purposes today whose soil is not very good.

To the north lies the great valley, ten to fifteen miles in width, known generally together with the hills farther north under the name "Cibao." Just east of the city of Santiago this valley is divided by low hills some 700 feet high. To the west the rainfall is inadequate for agriculture except along the edge of the hills on each side. There is some grazing land near Santiago but further west the country is quite arid and is the home of countless herds of goats which range at will. This part of the valley is drained by the Yaque

del Norte which receives numerous additions from the south but nothing from the north. On some of these side streams land can be irrigated. At Mao, for illustration, a Belgian who saw the possibilities has made a splendid beginning of a rice plantation. Some 12,000 acres here could probably be irrigated at reasonable cost, and the same may be true on other streams. In the neighborhood of Guayubin there are some 50,000 acres which could be irrigated with gravity flow from the Yaque itself at an estimated outlay of \$1,000,000. Nothing has been done on this. Between this place and Monte Cristi there are now several sugar plantations which pump the water from the river. Their future financial success is considered somewhat problematical, owing to the expensive installations necessary.

Santiago itself is the center of the tobacco-growing district. Its streets are packed at times with horses and burros delivering tobacco to the warehouses. To the east near Moca and La Vega we come to the cacao districts, and then to grazing districts. In many ways this appears to be the richest agricultural section of the country. In this region, too, are several saw mills converting the native pine into lumber both rough and finished. I have seen boards eighteen inches in width, but the average is much smaller.

North of the Cibao is a low range of mountains with fairly adequate rainfall offering numbers of small fertile valleys. Going east on the coast from Monte Cristi, with the exception of one small area, we find no land of value

until we reach Puerto Plata, one of the chief ports of the country, where there are several sugar plantations. East of this city there is nothing of note until we come to the Bay of Samana on the eastern coast. Here are extensive coffee plantations and here also the outlet for much of the cacao of the Cibao.

South of Samana there are some cacao regions and then the low lying and swampy, or else rough and hilly coast, little utilized at present. On the south side we find again sugar plantations beginning with the enormous development at La Romana. Sugar centrals are found at intervals along the coast as far as Bani, west of Santo Domingo. To the west at the mouth of the Yaque del Sur at Barahona new territory has been planted in sugar within the last five years. The Barahona peninsula itself is arid.

Population. The first census of the Dominican Republic ever taken was completed in the summer of 1921. This showed a total population of 894,587, a little over 45 per square mile, or about one-fourth the density of Haiti. Of these some 500,000 live to the north of the central range; 394,000, to the south. The crop areas indicated on the map on page 112 also indicate fairly accurately the location of the mass of the population, although there are scattered households everywhere. The country can support many times its present population. To the total given above it is stated that three or four thousand should be added to allow for foreign workers at San Pedro de Macoris. Why these were not included is not stated.

Origin. In the Dominican Republic one occasionally sees the high cheek bones and straight black hair which suggest the Indian. History tells us that the racial antagonisms were never as severe here as in Haiti nor did slavery

take as cruel aspects. The Spaniard mingled his blood freely with Indian and Negro. The Dominican averages a shade lighter than the Haitian; otherwise there is no apparent difference save the suggestion of Indian at times. The percentage of white ancestry is larger, but there are practically no families of pure whites in the country save those of recent immigrants. An American lady of mature years chancing to talk to some young marines one evening in Santiago invited them to have some ice cream with her. They did not immediately respond and after a bit, thinking they were timid, she repeated the invitation. They accepted, asking however, "You are an American are you not?" At the restaurant one youth naively said: "You see there are so many people here who look white in the evening and much darker the next morning that we have to be very careful."

Immigration. There are a few hundred Spaniards or Spanish colonials in the country who have come over for business and a handful of other Europeans and Americans. While it is the desire of Dominicans to encourage such immigration and to attract if possible Spanish farmers, much of the white population is of men temporarily employed who do not intend to remain. To this number must be added many thousand laborers on the sugar plantations who have come from all over the West Indies. Some of them remain but the majority return home. The only source of present immigration of any importance is that from Haiti. This began about a generation ago. The Haitians came in to do any kind of day labor but have settled down to remain. Already they form a very considerable part of the population of some of the towns. I have heard the number in Santiago estimated as 2,500 or 3,000 out of a population of perhaps

20,000. The Dominicans are not keen about this increase. The importation of oriental or negro labor is prohibited by their old law but they have always granted permits to the sugar plantations. Their antagonism is in part historical resentment against the Haitians first, because they once held the territory, and secondly because the Dominicans want to be considered as white while they believe the Haitians to be black.

Land Ownership. The Dominicans are essentially a nation of landowners. The scarcity of population, the abundance of land, has given all a chance. This fact must be kept in mind for out of it flow some important results. The country has never been surveyed. Titles are in great confusion. Not only have many titles come down through long periods of time with the boundaries inadequately described but there has also grown up a system of money or peso titles, as they are called. Instead of trying to divide the inheritance, each heir was given a certificate that he owned so many peso's worth of certain lands. These certificates have been passed from hand to hand and many fraudulent titles have appeared. As in Haiti this is a situation calling for settlement. In the south in the cattle and sugar regions the land seems to be held in large tracts by relatively few families. In the Cibao while there are large farms the average holding seems to be small. One competent observer says that in the richer portions the individual family holds about thirty acres of which he probably cultivates ten. The Military Government has established a land court which is grappling with this problem.

Agriculture. The methods of the Dominicans do not differ greatly from those of the Haitians. The machete is here also the chief tool in agriculture. The difference that one notes, however,

is that here and there modern machinery is appearing. It was my pleasure to see one large farm whose owner prided himself on his efforts to follow improved methods of agriculture. He was even trying to introduce some American fruit trees. He had over 100 of the best pigs I saw on the island. Out of his own money he was building a road to connect with the main highway. The Dominican farmers are more prosperous than the Haitian. One finds here actual plantings of cane, cacao, tobacco, and bananas, to a far greater extent than in Haiti. Most of these valuables crops are carelessly handled, and the products are not of the highest grade. For sometime prior to the financial depression the Military Government was employing some thirty agricultural advisers, was maintaining trial plots, was importing machinery which it sold at cost, and was introducing good seed.

Sugar. The most valuable crop of the country is sugar. This is grown chiefly in the south although there is a little grown at Puerto Plata and Monte Cristi. The soil and climate are so favorable that replanting is unnecessary for fifteen or twenty years and I have seen fields said to have remained in sugar over thirty years. Owing to the enormous cost of the mills sugar is produced chiefly on large plantations. Of these there are about a dozen, most of which are today under American control. Two of the largest are La Romana in the east, where the investment is stated to be some \$7,000,000, with 16,000 acres in cane and a labor force of 7,500, and Barahona in the west. This is a new plantation which is grinding this winter for the first time. The investment here is said to be over \$10,000,000. A splendid plant has been built with adequate provision for houses for the employes. The total possible sugar production is a

matter of conjecture but several times the present output can be grown.

Domestic Animals. The Dominican appears to have more and better cattle and horses than the Haitian. He (and she) are very fond of their horses and are superb riders. Some use is made of the stock for draught purposes. Goats are very common.

Housing. In the Dominican Republic nearly all the houses in rural districts are made of palm boards. One rarely sees a mud-plastered cabin. The roofs are of palm, metal being preferred by the better situated. The rural homes are at times very attractive, with well-kept yards, decorated with flowering or brightly colored shrubs. If on the main roads, there is often a neatly kept hedge which gives evidence of considerable pride. I am told that the new roads are having a marked influence in stimulating the better care of premises. There are few outbuildings and latrines are almost non-existent. The running streams are the main water supply, but in the Cibao there are many cisterns and a few wells. In the towns the architecture is Spanish. The houses are generally directly adjoining the street, giving the passer-by full opportunity to get glimpses of domestic scenes as doors and windows are wide open till closed at night. In every town is the square often so elaborately planted that no open place is left. These parks are the center of the evening social life. Late in the afternoon the girls and boys are promenading and in the evening their parents are also in evidence. Here are given the band concerts which everyone attends. The main streets of the larger towns are more or less macadamized. The sidewalks are very narrow, at times two or three feet above the street level, and not infrequently at different levels in front of two adjoining properties, so great care is needed.

Sanitation. As regards health there seems to be no great difference between the two ends of the island. The prevailing diseases are the same. An American doctor in charge of a local hospital spoke of the amount of surgical work needed in a country with few doctors, none, practically, in rural districts. He also had noted a gain in weight of patients after entering the hospital, thus confirming casual observation as to the inadequacy of food eaten. In the Dominican Republic the French law prevails that a doctor cannot carry or give medicine; instead, the patient must be examined by the doctor and medicine then secured from a druggist. This leads to doubling of charges, to much neglect of suffering among the poor and to hardship in emergency cases. While such a law may have its advantages in France it is worse than foolish under Dominican conditions. The druggists are said to charge often \$4 for simple medicine, which costs but a few cents, and which the physician would probably give the patient. The number of apothecary shops in all the towns and the amount of patent medicine carried, leads the visitor to accept as low the estimate that 5 per cent of the total income is spent for drugs.

Epidemics have been rare here as in Haiti but the country suffered severely from the "flu" and in the autumn of 1921 the smallpox epidemic had crossed the border line from Haiti and was spreading rapidly. Yet an American critic of the administration was condemning it for buying vaccine points. At first the papers and local doctors ridiculed the diagnosis of the disease as smallpox. One Spanish doctor, having first vaccinated his own family, made speeches against the vaccine campaign and condemned the vaccine which he, himself, had used. By the end of October the papers were condemning the

government for not taking more energetic measures. While there are some good physicians in the towns nurses are scarce and hospital facilities are grossly inadequate. There are no sewers in the town. A new leprosarium is nearly ready for occupancy.

The Family. The girls are strictly chaperoned in the better families and marriage is said to be impossible to one who has fallen. In the lower classes concubinage is common. The illegitimate birth rate is high, varying in different regions. No reliable figures can be secured. Formerly one civil official issued the license while the ceremony was performed by another or by a priest. Under the present law the priest can issue the license also, while one civil official can issue license and perform ceremony. This change was introduced to try to limit common-law marriage. As a rule, marriage is contracted early and large families abound. Prior to June 13, 1918 (Executive Order No. 168) there seems to have been no legal requirement that parents should support their children.

Labor. In the rural districts the men and women work side by side and both are seen on the roads taking produce to market. In the towns the lower class women work not only as servants but in the factories. Until lately the higher class women did no work outside their own homes, and not much there, according to common report, but now, since a number of young women from Porto Rico have set the example, many Dominican girls are found in government offices as clerks and stenographers. The Dominican is reputed a rather capable but rather unreliable laborer. In considerable measure this is said to be due to the prevalency of land ownership. Having his own land he does not care to work regularly for others. He likes to take contracts, if not of too long dur-

ation, but cannot be relied on for steady performance. He appears to be good with machinery. It has long been necessary to bring in outside laborers for the sugar plantations because of these conditions and the roads are today being constructed by Haitian labor. In some of the poorer districts, the Dominicans are said to be much steadier as day laborers. Common labor was being paid from eighty cents a day up in 1921 and it was claimed that few would work at the bottom price. In the towns, perhaps as a result of American influence, the washerwomen were charging as much as is charged in our big eastern cities. The upper class man rather despises manual labor.

Personal Traits. From the standpoint of culture there are great differences between the higher and lower classes, for in the Dominican Republic, also, the middle class is hardly existent. Both, however, have traits in common. They are intensely proud of their Spanish connection and think and speak of themselves as Latins. One almost never sees burdens carried on their heads, a custom so characteristic of Haiti. They are kindhearted and generous to their friends, though rather indifferent to suffering. Courtesy is a mantle to be worn on all occasions. They are outwardly polite regardless of their feelings. They will stand on the sidewalk or street blocking your way but with no thought that they are inconveniencing you. Though I was in the country when the newspaper agitation was at its height never once was I treated in discourteous fashion. Among themselves the young men are said to be rather given to fighting—"They are always at it," said one young woman. In pre-Occupation day everyone carried a weapon and the one most desired was a pearl-handled forty-four caliber revolver. Homicide was common.

Amusements. There are a goodly number of creditable newspapers in the various towns and these are sold on the streets more freely than in Haiti. Rumor and surmise are more prominent than news. There are more and better bookstores than in Haiti but the stores carry a large supply of Spanish stories either of the wild-west type or extremely salacious. Reading is not a general habit although the clubs will have well-bound editions of the classics. The movies are well-patronized but the films are extremely poor and one must wonder what sort of an impression they give of America. There are some good bands in the different towns.

Business. Here, as in Haiti, "big business" is in the hands of foreigners and many of the better shops are conducted by Spaniards or Porto Ricans. There are a good many Syrians who have not encountered as much opposition as in Haiti. A few American enterprises have been started, such as the electric light and water works system formerly supplying Puerto Plata and Santiago, just now in a state of suspended animation owing to inability of the company to continue old rates under war conditions and the refusal of the Dominicans to modify the contract in satisfactory manner. The leading banks are the International Banking Corporation, which is under the City National Bank of New York, the Royal Bank of Canada, and the Bank of Nova Scotia, the latter a newcomer. Save the sugar estates there seem to be few agricultural enterprises in foreign hands.

Manufactures. Factories are not numerous in the country but there are a number of distilleries where rum is made, which are owned and operated by Dominicans. During the War a well-equipped safety match factory was started at Puerto Plata which is turning out a good grade of match

which finds ready sale throughout the country. There are two cigar factories making excellent cigars, both Dominican owned and operated, in addition to cigaret factories of foreign ownership. A great quantity of cigars are made in homes and small workshops for local consumption.

Railroads. There are only two lines of railroad doing a general business, with a combined mileage of about 150 miles. The Dominican Central Railway runs from Puerto Plata through Santiago to Moca, 60 miles. This was built by foreign interests but was taken over by the government in 1908. It is a narrow gauge and climbs up a grade of 11% from the coast in order to reach the Cibao. The second road, the Samana and Santiago Railway, runs from Moca to Samana with branches to San Fernando de Macoris and La Vega. Although not standard gauge it differs from the first so no cars can be transferred. No railroad runs from the northern to the southern part of the country and while the project has often been discussed there is no present prospect that such a road could pay expenses. On the sugar estates in the south there are 225 miles of private roads. There is also a short line of some five miles connecting Azua with its port.

Roads. Prior to the Occupation there were few wagon roads in the country although an excellent beginning had been made. Transportation was largely on horseback. There was no wagon road even between the Capital and the Cibao and the journey from Santiago to Santo Domingo was a matter of days even under favorable conditions. I shall want to speak of the public works again so will only add that it is now possible to go from Monte Cristi to the Capital in an automobile with the single exception of a gap of some twenty-five miles in the

mountains, which will be entirely closed in a few months. Even now the trip from the Capital to Santiago is sometimes made in one long day.

About 1912 an American engineer was put in charge and some good roads were built, but he seems to have encountered much opposition and the appropriations were irregular and the funds wasted on disconnected bits of road. To what extent this was due to local politics, to what extent to the official who had been trained as an electrical engineer instead of a civil engineer, or to his lack of tact and uncompromising honesty, I cannot say.

Ports. There are docks at Puerto Plata, La Romana (dock belongs to sugar company but is open to others), San Pedro de Macoris, Santo Domingo and Barahona; elsewhere lighters are used. There are a number of lights on the coast. The harbors are not in very good condition, never having been adequately dredged.

Steamship Lines. The Clyde Line has had a monopoly much of the time in the trade with the United States. Now at least two other lines send freight steamers regularly. The French line gives direct connection with Europe. There is also frequent connection with Porto Rico.

Commerce. The foreign trade of the Dominican Republic estimated by five-year periods is as shown below.

This table indicates a very gratifying increase in the total foreign trade but a considerable part of the increase after 1914 is due to war-time prices, just like the terrific slump which came in 1921, and has little re-

lation to production. The production of sugar has been doubled from 85,000 tons in 1910 to about 185,000 in 1920. A large part of this commerce is with the United States. For instance, in 1919-20 the United States trade represented 77 per cent of the imports and 87 per cent of the exports; 13 per cent more of the imports were from Porto Rico and to Porto Rico went 2.6 per cent of the exports.

For the year 1918, which can be taken as typical, the chief imports and exports were as shown in the table on page 173.

Economic Situation. The rapid increase in commerce brought great prosperity to the country. The crops were good; the prices were high. During the War there was no special shortage of anything. Those who had previously eaten white bread did not have to make substitutions. The money income was great, both for the individual and the state. The merchants seemingly expected the boom to last forever. They were given extremely liberal credit both by banks and by American houses. After the War there seems to have been a good deal of "dumping" here as well as in Haiti. It was not until 1921 that the significance of the War came home to the Dominicans. Suddenly there was no market for their goods. Merchants could not sell because no one could pay. In the summer of 1921 the Dominicans did not declare a moratorium. It was not necessary. They simply stopped paying their bills. I saw many accounts settled for 35c on the dollar. A banker told me that the banks had failed to

FOREIGN TRADE OF THE DOMINICAN REPUBLIC, 1905-1920

	<i>Imports</i>	<i>Exports</i>	<i>Total</i>
1905	\$2,736,828	\$6,896,098	\$9,632,926
1910	6,257,291	10,849,623	17,107,314
1915	9,118,514	15,209,061	24,327,575
1920	46,525,876	58,731,241	105,257,117

foresee the crash and were caught with large loans outstanding. He said that his guess was that the loans of very doubtful value today ran from about \$12,000,000 and \$7,000,000 to \$2,000,000 for the three largest banks. The warehouses are loaded with goods bought at high prices which cannot be sold for more than a fraction of the original cost. This situation and the uncertainty of the future have greatly increased the discontent against the Americans, who, in some mysterious way, are held responsible. The government tried to save the tobacco growers by buying crop at a price above the market. It has the tobacco on its hands and the outcome is uncertain.

The Future. In time the crisis just mentioned will be met and conditions become normal. The country is relatively undeveloped. The climate and soil are good, although one needs to be very careful of the exaggerated statements often made. Probably not more than 10 per cent of the soil is really first-class. But a growing season practically twelve months long and a soil of average fertility wherever the water supply is ample, accomplishes wonders. Schoenrich is correct in speaking of Santo Domingo as the country with a future. Nature has done her part. What will man do?

Schools. In 1915 the Dominican Republic did not own a single school-building. Rural schools were almost unknown, not exceeding eighty-four

in number, the superintendent told me. The total school enrollment was about 18,000. While there were some public schools in rented buildings dependence seems to have been placed on the private, subsidized schools, the subsidy depending wholly on political influence. The teachers were paid very little and very irregularly. There was little supervision of the schools. Diplomas and certificates were given with very little reference to qualifications. Numerous private secondary schools existed, "all issuing diplomas none of which required proper preparation therefor and most of which required practically none." There were two Institutes of Social Studies and one Professional Institute whose functions seem have been to furnish salaried positions and a poorly equipped and inadequately supported University. The government sent some fourteen students abroad but there was complaint as to method of selection. On paper there was a comprehensive system but, as Mr. Lane once wrote, "The code of education was a pompous collection of inane provisions." Probably the best way of measuring the efficiency of the school system is the fact that about 90 per cent of the population was illiterate. The children of the well-to-do were educated abroad, often in the United States, if light enough in color to pass as white. There was little interest in general education save in limited groups. Here as elsewhere

CHIEF IMPORTS AND EXPORTS OF THE DOMINICAN REPUBLIC FOR THE YEAR 1918

<i>Percentage of Total Imports</i>		<i>Percentage of Total Exports</i>	
22.46	Foodstuffs	61.90	Sugar, incl. cane and molasses
18.46	Cotton	21.64	Cacao
9.57	Machinery and Apparatus	7.39	Tobacco (leaf)
7.61	Iron, steel and manufacturing	1.30	Hides (cattle)
5.51	Fibres, vegetable and manufacturing	1.05	Honey
3.97	Hides, skins and manufacturing	1.02	Coffee
3.14	Mineral oils	.85	Goatskins
2.41	Woods and manufacturing	.80	Beeswax

were individuals, prophets of, a new order like the Porto Rican, Eugenio M. DeHostos, whose name is spoken in reverence by the Dominicans.

Religion. The Roman Catholic Church is dominant in the country. To a large extent its churches have been built from public funds and there is some dispute as to whether the buildings are or are not the property of the state. With the exception of a small handful of Spanish Franciscans, all the priests are natives. The present Archbishop is very popular but the priests as a body are despised rather than respected, both by foreigners and educated natives. Rome appears to have little control of the situation. The local priests live openly with their women and their families are not limited to one. Drunkenness is frequent among them. The French priests of Haiti are disgusted with them. Judging by appearances the Dominican men have only a formal contact with the church, the great mass of attendants at meetings being women. The Protestant churches in the country are few and feeble. A number of denominations maintain missions. Except among the immigrants one finds no traces of the Voodooism so dominant in Haiti.

Government. The constitution establishes a representative form of government. The Senate is composed of twelve members, one from each province, elected for six years. The Chamber of Deputies has twenty-four members, two from each province. Suffrage is extended to all males over eighteen years of age. The Congress is supposed to meet each year on February 27 for a period of ninety days which may be extended sixty days if necessary.

The president is elected for six years. There is no vice-president, Congress choosing his successor in an emergency.

The Cabinet consists of the secretaries of the seven departments:

The Department of the Interior and the Police, which oversees the administration of the provinces, the municipalities, and the police force and has charge of the archives.

The Department of Foreign Affairs, which has charge of the consular and diplomatic corps and foreign relations.

The Department of the Treasury and Commerce, which collects and disburses public funds and prepares statistics.

The Department of War and Navy, which attends to all matters of public defense.

The Department of Justice and Public Instruction, which has in its charge courts and prisons, matters of education, and all things pertaining to the Roman Catholic Church.

The Department of Agriculture and Immigration, whose title is self-explanatory but whose accomplishments have never been very striking.

The Department of Promotion and Communications, which controls all public works and the granting of patents, trade-marks and mining claims.

There are twelve provinces, each with its own appointed governor who is directly responsible to the Secretary of the Interior and Police. In actual life these governors have often ruled as petty kings and have sought to riyal or "oust" the president. Their powers are considered too large by some of the ablest Dominicans. The provinces are divided into communes with necessary local officials.

Courts. In each commune there is at least one local court (*alcadía*), sixty-three in all. Each province has one court of the first instance. There are courts of appeal at Santiago and Santo Domingo (possibly a third at LaVega—my authorities are conflicting), the number of whose judges can

be increased but not diminished by the president, and a Supreme Court at Santo Domingo. The last consists of a presiding judge and six assistants according to the constitution, but I believe there were but five at the time of my visit.

The legal codes are almost literal translations of French codes of the middle of the nineteenth century with few adaptations to local conditions. The legal books are usually French. The courts have been poorly equipped either with furniture or books. There has been little supervision of judges or lawyers and the average standard is not considered very high.

The Dominican courts seem to have aroused much less antagonism than those of Haiti. There is little evidence of discrimination against the foreigner. There are, of course, curious decisions. On one of the sugar plantations an automobile driven by a man probably intoxicated and carrying the owner also intoxicated attempted to cross a railroad track one night at about two o'clock. It was struck by a train which was being backed down the track with the engine at the further end, a brakeman carrying a lantern on the front car. Damage suit was brought and the court held that the chauffeur, brakeman, engineer and fireman were equally responsible and imprisoned all of them while it fined the sugar company \$500. This was paid as the company feared to fight. This case probably indicates an attitude towards corporations not unknown elsewhere rather than an attempt to penalize the foreigner. Incompetency rather than crookedness is the burden of the criticisms.

Attitude Toward the Law. As regards the attitude towards constituted government little need be said. One recent writer has thus summarized the situation: "During Santo Domingo's seventy years of national life, nineteen

constitutions have been promulgated, and there have been fifty-three presidents, but three of whom have completed terms of office for which they had been elected. Two were killed, twenty deposed, and the others resigned more or less willingly." There were thirty-five presidents between 1863 and 1916, thirteen between 1899 and 1917 and seven between 1911 and 1916. It is evident that the central government has never been any too secure. The fact is that most of the time there was active revolt in some part of the country. Although the president appointed the governors he had to take the strongest men even though these were opposed to him. At one time a provincial governor controlled part of the city of Santiago while the rest was ruled by the commandant of the fortress there. Here another governor was raising his own army and handling revenues with little regard for national laws while elsewhere a private citizen owning a great territory ruled as a feudal lord, gathering to himself criminals and malcontents from other regions. Where the opposition did not dare come out into the open guerrilla warfare and banditry flourished, often supported by politicians in the towns. Between these political bandits and roaming criminals no hard and fast line can be drawn. I am informed that even the strongest of the rulers like the despot Hereaux, dictator from 1881 to 1889, or Caceres, who was assassinated in 1911, had never entirely suppressed the brigands, particularly in the eastern district. The Dominicans have never attained that respect for law without which orderly government is impossible.

Nominally a republic, the actual government has been a despotism. There have never been political parties as we understand them. There have been parties named after their leaders

but their programs have been identical, that is, to get into office. It is difficult to point to any measure undertaken by any government for the benefit of the country. There have been no free elections worthy of the name, though there have been contests between these personal followings. The voting has been under direction.

Graft. In a country so managed it must be expected that officials will try to make private profit out of their positions. This is freely admitted. The politician has dodged his taxes as have other influential men. For instance in 1917 with some sixty-six stills operating in the north the internal revenue from them was less than \$15,000 a month, but when in 1919 an American was put in charge and the stills reduced to nine, the revenue increased to \$35,000 a month. In the province of Santiago, with from twenty-two to twenty-eight stills operating between 1912 and 1917, the total revenue was about \$55,000, but in the first seven months of 1918, one still alone in Santiago paid \$57,000 revenue. A competent observer said that his guess was that the graft in the civil pay roll was not more than 5 per cent but that big money was made on supplies for the army and in financing revolutions. This last was the origin of a large part of the old fortunes of the country. Everywhere the people believe that the officials are grafting. Formerly every cigar had to have a separate revenue label and it was forbidden to remove this until the cigar was partially consumed. Now each box or package

must have a label and I was told in Santiago that probably three-fourths of the cigars smoked had paid no dues as only the larger factories could be made to observe the law. I cite this to show the attitude of the common man. He does not believe that any official is honest and knows that he would not be if given similar opportunities. Bonding companies are significantly absent.

We are often told that the revolutions were practically bloodless and were really little more than counterparts of our electoral campaigns, with rifles and revolvers furnishing the fireworks. Aside from the fact that the natives say that the revolutions were becoming more violent, this statement ignores their effect on industry. "The peasants have never had any inducement to save," said a Dominican woman to me one day. It was useless to try to accumulate stock or other property when tomorrow, or next week at the latest, some leader or his gang would come along and seize everything. No continued industry was possible if "volunteer forces" might appear at any time looking for recruits. The handicap to the country was enormous.

It is evident that there are certain fundamental resemblances between Haiti and the Dominican Republic in spite of equally obvious differences. The latter country is a bit further along the road to civilization but is still stumbling over some of the same obstacles. The necessity of an inner change in the attitude of the leaders is just as acute.

CHAPTER II

The Military Government

AFTER the flight of Morales in 1906, Caceres became president of the Dominican Republic and was re-elected in 1908. He was assassinated on November 19, 1911, and replaced by Victoria, who was elected constitutional president on February 27, 1912. Revolution broke out and the United States sent a commission which helped effect an agreement between the leaders of the opposing factions. The Dominican Congress assembled and accepted the resignation of Victoria, electing the Archbishop, Adolfo A. Nouel, as president. In spite of his personal popularity he was not a strong executive and after a brief time resigned in disgust. Bordas became provisional president, April 14, 1913, and served for one year. There were other revolutions and another commission went down from Washington. The resignation of Bordas was arranged and Baez became provisional president, August 27, 1914. In October, Jiminez was elected president, taking office in December. For a time all was quiet but in April, 1916, Arias, the Secretary of War, deposed Jiminez and assumed power. With the consent of Jiminez, American forces were landed on May 5 with orders to support Jiminez and Arias was notified that he would not be recognized as president. The Dominican Congress then chose as provisional president a prominent physician who had given up his profession to enter politics and who had lived many years in Cuba, Dr. Henriquez y Carvajal.

As a condition of its recognition of the new government the United States suggested a convention similar to the one with Haiti (which is reprinted on page 152). This the Dominicans abso-

lutely declined. The American authorities then refused to turn over to the government the revenues collected. Finally Washington resolved to end the trouble and order the naval forces to take entire charge. So on November 29, 1916, there was set up "The Military Government of the United States in Santo Domingo," which has remained in complete control since. The governor has been an admiral of the United States Navy, more correctly a series of them. All the high officers of the central administration have been Americans.

Lack of Definite Reasons. So far as I can learn, Washington has never given either to the Americans or to the Dominicans a definite statement of the reasons leading to the intervention, except the brief statement in the Knapp proclamation that the intervention was to help establish stable government in order that treaty obligations might be kept. It is not publicly known just what men advised such intervention. Until some of the inner facts are revealed it is difficult for the outer world properly to evaluate the courses followed or to award praise or blame. The Dominicans understood at first that a legation guard was to be landed; then that men were being sent to prevent damage by revolutionists; but the subsequent demands of the United States make these seem but excuses. I have indicated that from the American standpoint the Dominicans had not, perhaps because they could not, lived up to the pledge not to increase the debt without the previous consent of Washington. The preceding paragraph indicates a great deal of internal turmoil. In all of this, however,

neither American lives nor property were jeopardized so far as known.

Prominent Americans and Dominicans have told me that they believe that Washington knew of certain plans of Germany to use the island if opportunity offered and, inasmuch as we were not then at war, thought it better to forestall such a possibility. If this were the main reason it is difficult to understand why President Wilson waited until December, 1920, before proposing to withdraw the troops. Some Dominicans believe that Washington more or less identified the Haitian situation with the Dominican and failed to appreciate the differences. It may be that European countries urged our government to intervene. So I was told by one of the highest officials under Mr. Wilson. There is no evidence whatever that this action was due to any underhanded or grasping motives. This the Dominicans admit for they, and I, believe it was done in good faith as a matter of necessity. I should like to know, nevertheless, just what the reasons were. Admitting then that only the strongest arguments could have induced Mr. Wilson to order an occupation seemingly so contradictory to certain principles emphasized by him, and admitting good faith, it is possible that the action was a grave mistake. Here, then, is the fundamental question which makes all the problems of actual administration of our trust insignificant but upon which we must suspend judgment until all the facts are known.

No Evidence of Policy. Whatever the facts prove to be in regard to the reasons for occupation, there is no evidence that Washington had at the outset, or has developed since, any well-thought out policy or program. It presented a scheme for a new treaty as already mentioned. When this was refused and anarchy threatened, Wash-

ington, finding its hands forced, ordered the Navy to assume full control. Under such circumstances one would naturally assume that the officials in the Dominican Republic would be given a policy to be carried out. No trace of any such policy can be found. Seemingly Washington has drifted along in a hopeful attitude, settling problems as they have arisen but holding no clear vision of what it wants to do. The men on the ground have been left to their own devices. Admiral Knapp decided to interfere as little as possible and Washington was satisfied. Admiral Snowden, who is reported to have said that he "would be damned if he did anything and damned if he didn't," decided on the former course and Washington was just as satisfied. Whether the State Department and the Navy Department saw eye to eye is a matter of doubt. Certain important recommendations of both military and civilian representatives were quite contrary to the policy of withdrawal announced by Mr. Wilson and I am told that the local officials knew nothing of this decision until they received the declaration with order to publish. If it be true that Washington had no policy, it is a reflection on our methods. It has put our representatives on the island in an unfair position for they are supposed to be the executors of our policy, not the originators. I have sought to make this point clear before discussing what the Occupation has done, because of its bearing on our final verdict.

It would be hard to find a more responsible or more anomalous position than that of the admiral called on to serve as governor of the Dominican Republic. His immediate assistants were fellow officers many of whom, in keeping with American traditions, did not know the language of the country. In the provinces were the old native

officials, the governors, the communal councils, etc. The old system of courts with native judges existed. Congress was no more. If new laws were needed there was no way to get them except to issue executive orders and 589 such had been issued by December 31, 1920. But would the courts recognize and enforce these new laws? It is obvious that while the governor might obtain the best native advice on modifications of the old laws (which was often asked) he could not count on the hearty cooperation of the people, particularly of the educated class, which was most likely to feel antagonistic. Regardless of the wisdom or the necessity of his decisions there was sure to be sharp criticism. As a matter of fact, he has been compelled to issue orders which affect nearly all departments of the national life. It is out of the question to consider all of these and we can only indicate some of the more important changes made and describe some of the new programs, and indicate the nature of the criticisms. I should add that the policy has been to employ Dominicans wherever possible.

Preservation of Order. While there was some armed opposition to the marines when they entered the country this was speedily overcome. The military problem became a police problem. There had always been armed individuals and at times armed bands in various parts of the country whose suppression had been difficult, both because of the nature of the country and because they were more or less supported by public sentiment. As already stated there was no hard and fast line between the roaming criminals and the revolting politicians, the "gavilleros" as they are locally called. The peasants feared to oppose or denounce them and their fear was justified. Even the big sugar estates formerly "paid for protection" and I am

told that they have continued this policy even under the Military Government. To assist in suppressing such trouble the natives were required to surrender all arms and it has been very difficult to get a permit to possess even a shot gun. One result of this policy, which is approved incidentally by all thinking Dominicans, has been a great reduction in homicide. A prominent man told me that in the province of Santiago prior to the Occupation there were about 300 homicides a year and that since there have been only 50 a year. Many Dominicans freely admitted the truth of the statement. This means that over a thousand Dominicans are alive and, we will hope, well, who would have been dead had the old conditions obtained. This number, let us note, is many times the total of all the atrocities ever charged against all the Americans in the entire country.

There was an increase of banditry in the summer of 1921. About the middle of September I heard that arms from Mexico, via Jamaica, had been landed at Monte Cristi, their delivery having been arranged by prominent men of San Pedro de Macoris. I was not greatly surprised to learn that in the round-up made at the end of the month after the English manager of a sugar estate near this town had been kidnapped and held for ransom, brand new Smith and Wesson arms with new ammunition were captured. The politicians in the towns, hoping for the early departure of the Americans, were starting their old games.

Barring such local affairs the entire country has been at peace and the foreigner as well as the native can go about freely without fear. Evidence of a changed order is seen in the fact that many peasants who had formerly hidden their cabins away from the main roads are coming out of the brush and building new homes on the high-

ways. Everywhere I found that now they feel safe and have no fear either for themselves or their possessions. The peasant appreciates the substitution of order for the old revolutions. Of course, arms and ammunition are smuggled in once in a while. In one case the crew on one of the Clyde liners had planned to deliver a considerable quantity which they could have sold at great profit but the shipment was discovered. There are, however, few arms of any account in the hands of the public.

Police Force. The Military Government has built up a local force known at first as the "Guardia" and still so called except in official papers. (For some reason the name was changed in June, 1921, to *Policía Nacional Dominicana*.) This consists of some 800 men, officered by Americans, and is very similar to the Gendarmerie of Haiti, although its duties are more limited. The pay of privates is \$15 per month. It is criticised by the Dominicans just as the Gendarmerie is by the Haitians. Its officers however feel that it is to become a valuable asset to the country. I suspect that much of the local opposition is due to its control by Americans. Some of the papers in 1921 tried to start a movement to condemn as traitors those who served in it.

Internal Revenue. While on the island I learned that after 1904 very great frauds grew up in connection with the internal revenue. In the report submitted in November, 1920, by Lieutenant Commander A.H. Mayo, the officer administering the Department of State and Commerce, I find ample confirmation of this statement and from his report I take the statements in this paragraph. The total internal revenue collected in 1916 was \$782,144; in 1917, \$1,232,697; in 1918, \$1,697,163; in 1919, \$3,014,230 and in 1920, about \$4,000,000 (I do not have

the exact figure at hand). The amount collected on alcohol, which had averaged about \$210,000 per year from 1909 to 1916, rose to \$511,000 in 1918 and to \$809,000 in 1919. In July, 1917, the largest distillery was sued for fraud and paid out of court the sum of \$64,340.10 to settle the case. Commander Mayo adds:

The frauds committed in the administration of the alcohol tax were far exceeded by the illegal traffic in stamps and stamped paper. Government stamps and stamped paper had been used by the government, or by the officials of the government, to barter for the purpose of obtaining ready cash, and both were often sold in large quantities at an almost ruinous discount. Officials of the government frequently collected commissions on such sales.

Elsewhere he states:

Enforcement of the old license law has been in the hands of the local municipal governments. Due to poor methods and the practice of selling the right to collect taxes, it was not a success. Of the many taxes imposed and collected by the municipalities it is doubtful if more than 70 per cent of the taxes due and payable were ever collected and in all cases the cost of collection was enormously high, often reaching as much as 50 per cent.

It is estimated that the municipal collections did not exceed \$260,000, while in 1919 under the new system \$630,305 was secured. These changes of great advantage to the country have been brought about largely by the systematizing of the work, the discharge of a large number of dishonest men, the introduction of a local bonding system supported by the employes themselves and not by an increase in the taxes themselves.

Direct Taxation. The tax on land created by executive order No. 282 on April 10, 1919, is in many ways the most important change made by the Americans. The original order con-

tained some foolish provisions such as the attempt to graduate the tax on the amount of land held, not on its producing power, which had to be changed. Leading Dominicans admit the value of the tax and there is little chance of its future abolition. The rate of the tax is one-half of one per cent on the assessed valuation. This law compelled the development of a force of assessors and Porto Ricans seem to have been selected at first. There is much complaint of the way they did the work but it is difficult to determine the justice in the complaints. As a fact, the difficulties were no greater than one would anticipate and experience will show what changes are needed.

The law has succeeded already in destroying many fraudulent titles. The declared valuation of the real property was \$141,000,000. The tax collected in 1919 was \$740,924 and in 1920, something over \$900,000. The collections in 1921 ran considerably behind this sum. This was due in part to the financial depression; in part it was the result of the belief that the Americans would soon withdraw and that a native government would repeal the law. As a rule the people had accepted the law without much objection but some, of course, were antagonistic. One former provincial governor, for instance, refused to pay until given the privilege of paying within twenty-four hours or going to court.

Handling of Funds. The American officials deserve great credit for their work in developing the financial methods of the government, in introducing system, in securing honest employes, and in avoiding the least suspicion of any graft or dishonesty on their own part. For once, at least, the government funds have been honestly administered. It is to be hoped that the Dominicans appreciate these facts. So well have affairs been administered

that all obligations have been met in spite of the fact that the salaries of employes have been materially increased, and by 1920 there was a surplus of some \$4,000,000 in the treasury. Just now the situation is changed. The officials do not seem to have realized the near approach of a financial crisis in the world's affairs which would involve the Dominican Republic. It is now common to condemn these officials, but we must not forget that the local banks were equally shortsighted. I am inclined to the belief that some people in the United States were no better informed.

Education. The Dominicans freely state that the impetus given public education is one of the best things done by the Americans. Rufus H. Lane, who was in charge of the school work, appears to have been one of the best men we have sent down; at least the Dominicans are enthusiastic about him. No less enthusiastic over the schools is his Dominican successor. Since the Americans came the number of rural schools has increased from 84, with about 1,000 children enrolled (average attendance 40 per cent) to 489. The salary of the teachers has increased from \$5 and \$10 a month to \$55 and the salary is regularly paid. (After the financial crisis the salary was reduced to \$40 as an emergency measure.) There are today 489 rural primary schools, 49 primary city schools, 69 graded schools, 6 industrial schools, 4 special schools, 2 normal schools, as well as the University which has been somewhat reorganized. The total enrollment has increased to 100,000. It is estimated that some sixty to sixty-five thousand children have learned to read and write. In some rural districts the census showed that 20 per cent of the population could read and write and that nearly all of these were children under sixteen.

In the towns there is a school-day of five hours. In the country there are two sessions of three hours each for different groups of children, thus enabling the building to do double duty. In the hurricane of September, 1921, many schoolhouses were wrecked and many of these were among the first buildings to be repaired. Even the *bandits* are alleged to have forced such repairs. Local school organizations have been started even in rural communities, which have built many schoolhouses. Five excellent buildings have been erected by the government, two in Santo Domingo, two in San Pedro de Macoris and one in Azua. Plans had been made to erect many others but there were many difficulties encountered. Some towns refused to give sites. No reliable contractors could be secured in the North and by the time outside contractors were ready to bid the slump came and all projects had to be abandoned. Meantime, expecting other buildings to be ready and knowing the delays incident to importing, the school authorities had made large purchases in the United States of desks and other supplies which must now be stored.

Curiously enough it was in connection with the schools that one of the greatest psychological blunders of the Americans was made. Owing to the financial crisis the school-year, 1920-1921, was shortened by two months. This caused a great furore. It seems to have been a regrettable mistake but the Dominicans must not forget that in the old days most of these schools were not open at all. Such shortening of the school-year is not unknown in this country under similar conditions. I trust this new interest in education will not be lost but it is not encouraging to hear in Santo Domingo the common rumor that when the Americans leave one of the fine buildings will be used as

an official residence and not as a school.

Public Works. To the question of permanent public improvements much attention has been paid. It is understood that Admiral Knapp at first favored the construction of a railroad from the Capital to Monte Cristi but later realized that a system of roads was preferable. There was also a crying need for the construction of schoolhouses, for the repair of existing wharves and warehouses and the building of new, for the creation of correctional schools, and asylums for lepers and the insane, and for hospitals. After long study a large program was developed, whose estimated cost was some \$16,000,000. It was proposed to meet this cost by using some three million dollars available in a fund for public works, by setting apart another three millions from the accumulated surplus of government income and by borrowing the balance.

This program was endorsed by the second Pan-American Financial Conference. I am informed that it was also approved by the State Department; at least, such is the understanding of the officials in Santo Domingo. In substance, the State Department is alleged to have said, "Go ahead and spend the six millions and when the balance is needed a loan will be approved." At the beginning of 1921 the officials asked Washington for the loan and were astonished to find that it would not be approved. Finally a loan of \$2,500,000 was allowed in order to meet certain existing obligations and to complete some of the road building program. Doubtless this change of heart was due to the belief that the Americans would soon withdraw but its effect on the program is easily seen.

Roads. Meantime work under way when the Americans entered had been carried on. Many difficulties were encountered. In November, 1917, bids

for road work were advertised in the United States and Porto Rico as well as locally. Two or three American contractors went over the ground but only one bid had been made by April, 1918, and the price submitted was so high that it was immediately rejected. Admiral Knapp wisely decided not to attempt construction on a "cost plus" basis. In 1918 two American contractors submitted a reasonable bid for the construction of fifty kilometers of the road between Monte Cristi and Santiago, the rest having already been laid. This bid was accepted and the work done. In August, 1918, the Department of Public Works was ordered to start another road. The question of labor now arose. The Dominicans had opposed the introduction of Haitians for road building and had been supported by Knapp. But other labor was not available in sufficient numbers. Admiral Snowden became military governor in March, 1920, and shortly thereafter gave his consent to the importation of Haitians. By October, 1920, sufficient engineers had been found and enough labor secured, together with necessary machinery, to create the belief that the main program of roads could be completed by May, 1921. In January, 1921, owing to the failure to secure the loan above mentioned, it was necessary to discharge 90 per cent of the engineers and all of the laborers and stop work entirely. There was no resumption of the work until July 1, 1921, when part of the \$2,500,000 loan became available. The small sum at the disposal of the Department will enable it to finish the main road after a fashion, but that is all. Temporary wooden bridges nine feet wide over some torrential streams must be left instead of the permanent concrete structures planned. The local officials cannot be blamed for the failure of the original program.

From many standpoints this road building has been the most important thing undertaken by the Americans, more important in my own opinion than the building of schoolhouses, and we are making a great mistake in not finishing the job. One Dominican said to me: "You are making a serious blunder by failing to grant the entire sum needed to complete permanent roads. The politicians would howl and the people grumble at first but the roads would be so valuable that in a few years the cost would be a minor matter and the people would be grateful to you for leaving a structure they could not hope to create for themselves." In one community when the work stopped, the citizens gathered together and did a great deal of work to put the road in usable condition. Only one who has gone over the country can appreciate either the need or the difficulties encountered. I sincerely hope that some solution may be found. That the Dominicans appreciate the roads is evidenced by the number of automobiles they have purchased in recent years. Regular bus lines run to all accessible towns about Santiago and the Capital.

Wharves. A new concrete wharf with an adequate warehouse has been built at Puerto Plata replacing an insignificant wooden pier formerly used. The wharf at Santo Domingo has been much enlarged and a fine custom house built. At San Pedro de Macoris a concrete wharf is under construction to replace an old wooden structure. The wharf at Barahona has been enlarged.

Postal Service. In olden days it took from ten to fourteen days to get mail across the country. This service has been greatly improved and will be further expedited when the roads are completed. The graph on page 184 will show the advance made in the last

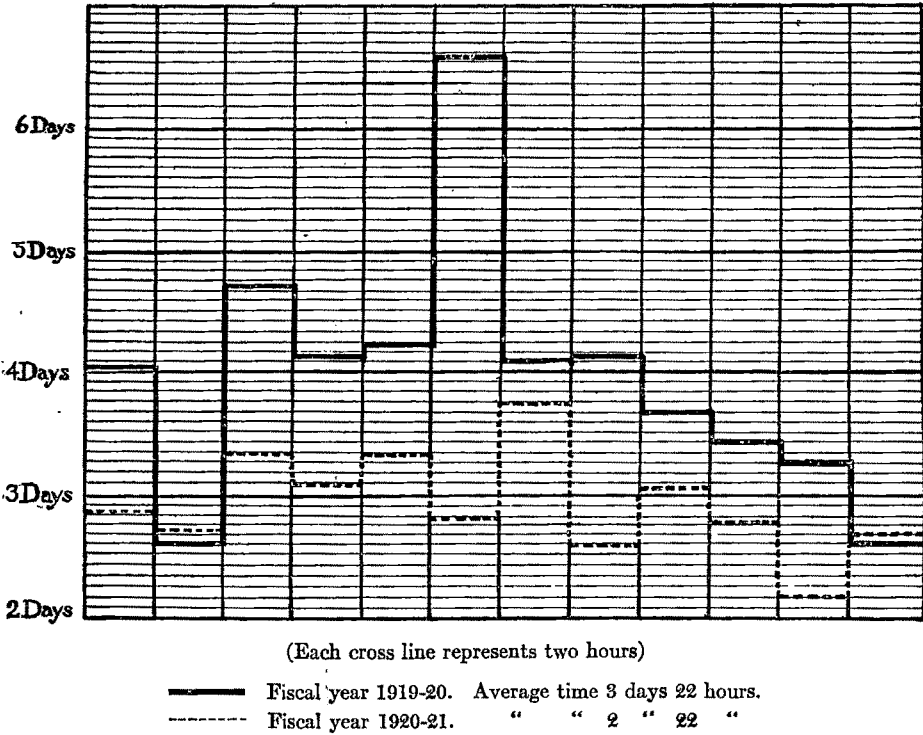
year. The monthly fluctuations are almost wholly due to weather conditions.

Inasmuch as it is impossible to go further into the details of the work accomplished it may be presented in comparative form by the sketch on page 185 furnished by the Department of Public Works.

It is clearly impossible even to attempt to sketch all the activities of the American officials in administering the government. I have hardly mentioned, for instance, the public health work. I can only summarize by saying that it has been the endeavor to establish such programs as we have found necessary in our own country. Before attempting any general estimate of these attempts it is necessary to consider briefly one or two other matters.

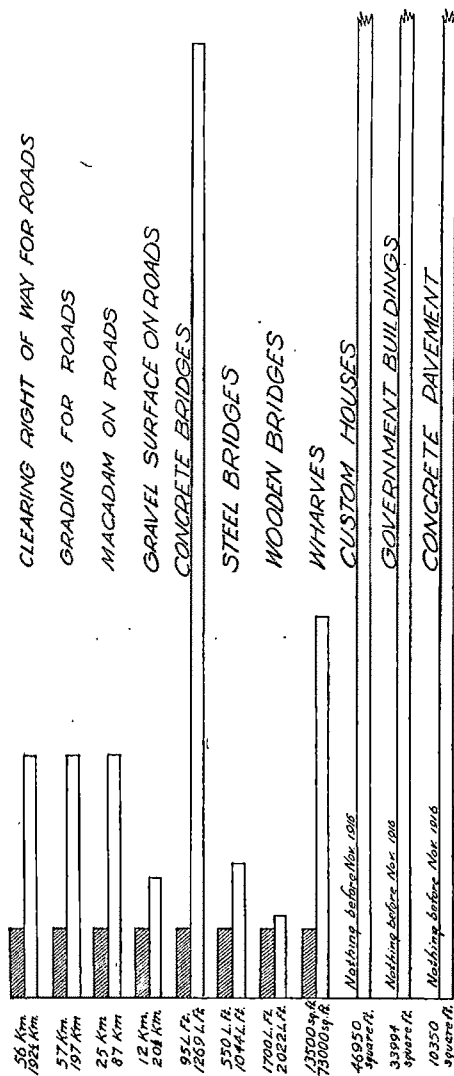
Censorship of the Press. In an order issued November 29, 1916, it was decreed that any comment on the attitude of the United States or with reference to the Occupation must be approved in advance of publication, and the publication of all violent or inflammatory articles or those counselling hostility or resistance to the Military Government were prohibited. There has never been freedom of the press in the Dominican Republic as we understand the term, and the order was doubtless necessary. Its execution, however, and some of the sentences imposed for violation caused much feeling. Censorship is seldom either wise or efficient and probably many blunders were made. The funniest story, for whose truth I cannot vouch, but which was told me by an educated American, ran

TIME REQUIRED FOR MAIL DELIVERY—MONTE CRISTI TO SANTO DOMINGO



DIRECCIÓN GENERAL DE OBRAS PUBLICAS
A COMPARISON OF THE WORK DONE BY THE DEPT. OF PUBLIC WORKS
DURING THE THREE AND ONE HALF YEAR PERIOD PRECEDING THE MILITARY OCCUPATION
WITH THE THREE AND ONE HALF YEAR PERIOD FOLLOWING

Work Done May 1930 to Nov 1916 Work Done Nov 1916 to May 1920



as follows: The censor had passed an article in which was described the Bolshevik movement in Russia, and was called to account by a higher official. Subsequently he received an article signed by the same writer and rejected it at once—although it happened to be an article on the Red Cross written by request.

The old Dominican law recognized two types of offensive statements: "difamacion," the allegation of an act affecting the honor or reputation of an individual, and "injuria," an offensive statement not imputing a specific act. The penalty for "difamacion" against the representative of a foreign country was punishable by imprisonment from eight days to three months and a fine of from \$5 to \$10. The publisher was not directly responsible if the offending article was signed by another. "Injuria" was a simple police court matter with a fine of one peso (25c). After the removal of the censorship it was necessary, if any protection were to be given, to change this law and so executive orders No. 572 and No. 573 were issued December 6, 1920. The first of these (Sedition Law) prohibited the publication of (a) any article advocating or defending anarchy or Bolshevism; (b) any proposal to overthrow by force the Military Government, or resistance to its laws and legal orders; (c) any criticism of the Military Government, of the United States, its representatives civil or military, in such form as indicated an intention to provoke disorder or revolt, and (d) any discussion of conditions in the Dominican Republic couched in language which shows an intention to provoke disorder or revolt. The second law (Slander) provided punishment for the libel or slander of civil or military representatives of the United States or similar publications against the government itself. Statements against an individual, if true, are

neither slander nor libel. It is difficult to find just criticism of these laws but they were practically repealed for reasons unknown to me by executive order No. 591 issued early in 1921, which practically limited itself to the prohibition of "doctrines of anarchy" or "doctrines and practices contrary to public morals as understood by all civilized nations."

It seems to be true that the local officials could not count on the backing of Washington and that they were discouraged by the many reversals of verdicts. It is known that Dominicans in Washington wrote home that the papers could say what they chose and could practically laugh at the Military Government. Anyhow, early in 1921 the Dominican papers became not only free in their discussion of local conditions but filled with violent, abusive and insulting comments with reference to Americans. Protests to Washington brought no relief. Leading Dominicans often expressed regret to me that this should be tolerated. To show that I am not drawing on my imagination let two illustrations suffice. The first is taken from the first (and last) issue of *El Machete*, published at Santiago, August 4, 1921.

EULOGY TO THE DOMINICAN MACHETE

Dedicated to Lulu Rodriguez who knows how to interpret the dance of the edge of the machete on white flesh.

Hail to Thee! thou flammiferous cutlas, which, in times past, in the hands of Luperon and Valerio, dulled your edge lopping off the head of the invaders of '83.

Hail, Machete! which on other occasions, solved the problem of an absolute independence, without restrictions, by one act, effected in a sure and bloody manner.

Oh, Machete! your work, effective, regenerative and immediate has been replaced by an act of conservation, which, at the present time is called "prudence."

What is prudence? What is its interpre-

tation? Is it to put up eternally with the opprobrium of a shameful occupation, of an occupation which implies the civil death of the Republic?

Oh Machete! Hail a thousand and one times! because thou, burying thyself in skulls, describing a circle of vindication in space, art the only one which gives that which a people not enslaved aspires to: their liberty.

Machete! thou who art temporarily sleeping the sleep of death, come forth again, brave and triumphant, swift and avenging, in order that those men, in a lethargic state at the present time may be moved; in order that through an act of honor thou mayest revive the fine tradition of '44, kept down today by the ill-omened cetacean of North America which from its maritime positions, surrounded by the waters of the Pacific, kills with one stroke the weak madrepora of the Caribbean Sea.

The writer, one Jorge A. Gonzalez, lacking the courage of his convictions, meekly explained that it was written as a fanciful conceit and that he meant nothing by it. The military authorities decided to sheath the *Machete*.

From the same office and under the same men there appeared another sheet on August 27, 1921, entitled *El Dogal* (The Halter). I quote the last part of an article on "Woman."

Our women are treading a miry path; and I see the mire already coating their fair skins.

It appears as if the women in my country had allowed themselves to be more imbued with the fatal consequences of the morbid and corrupt relations with the Yankee than the men. In the United States there are no moral statutes for the women. The women, enjoying absolute liberty, are in complete moral bankruptcy. The women there lead a very free life; hence the enormous gashes that cut the heart of morality in two. Our girls copy, perhaps unconsciously, some points presented daily before their eyes at the moving picture shows and in the lives of the mercenary women who come to my country from the north, and go

smiling towards a sad destiny, prepared, perhaps, by the infamous intentions of this nefarious intervention.

Nothing whatever was done to the writers or publishers of such scurrilous statements save to warn them and suppress the papers. The regular daily press was at the same time attacking every move made by the American Government, or its representatives, asserting the most corrupt motives for every action or decision. Yet the local authorities felt powerless. The reader should not forget that much less offensive utterances in Haiti had resulted in the proclamation of May 26, 1921. It is but another indication of a lack of program at Washington.

The Dominican Reaction. Ask the intelligent Dominican for the best things done in the country by the Americans and he is likely to reply: (1) maintenance of order; (2) development of schools; (3) the tax on land; and (4) the taking of a census. Some would give the road building an important place, but more feel that this is but a continuation of an older program. Practically no one would suggest that the establishment of accounting systems and the emphasis on honest administration deserved attention. Can it be that they are skeptical of the permanency of such efforts?

Ask the same man for a bill of complaint and he will say: (1) cruelty; (2) arbitrary actions; (3) inferiority of officials; (4) multiplications of laws; (5) great increase in salaried positions; (6) failure to understand Dominican psychology.

With reference to the charge of cruelty it must be admitted that there have been many instances, particularly of what the boys would call "rough stuff." However, very few men in reality are charged with these offenses and the critic instantly admits that

they are as nothing compared to the number in the old days. He may say, as one did to me, "But that change is not due to the marines. It is the result of taking away the arms from the people." I still saw a connection. There is another side to the story too. There have been a good many assaults on peaceful marines. The Dominican youth have a pleasant habit of throwing stones when they feel relatively safe and this has led to fights. I knew one fine young marine who was stabbed and killed one evening, apparently because he stopped to speak to some women on the street. I heard of other cases where men had been killed and bodies mutilated.

The local papers tell only one side of the story. When two drunken marines in Santiago try to wreck a drug store full accounts are given, but when a young man of a prominent family is arrested for assault the papers mention the arrest and the efforts of good citizens to rescue him, but make no mention of the offense. One of the officers accused of cruelty has lived as a private citizen for several years in the very community in which the offenses are alleged to have happened and seems to be well-liked. At least when last summer it was reported that certain men were trying to "get him," some two hundred Dominicans on horseback rode into the town to protect him. I have known drunken officers to disturb an entire hotel most of the night; I have seen drunken soldiers on the trains and heard the vilest of language uttered with complete indifference to the possible presence of ladies who might understand English, and there were such. In fact these pettier (?) things are more important than actual cruelty. They are the mosquitoes which torment and irritate. They are the excuses given for the deeper feelings underneath. One writer who had

scathingly condemned the marines for cruelty, when asked for specific cases, hesitated and finally replied: "Five years ago, two marines entered my yard and killed a chicken." It was the only case he knew.

Arbitrary acts and decisions, particularly of younger officers, have caused much complaint. At the town of — two marines on mischief bent entered the premises of a well-known man. He ordered them to leave and when they refused he had two Haitian employes put them out. A little later they returned with guns and arrested the Haitians. The owner followed the party to headquarters. It chanced that the provost marshal was absent and the man in charge, an older marine, locked up the owner and the Haitians. On return of the provost marshal all were instantly discharged and the marines were ordered before a court martial. I tell this story both to illustrate the kind of things which have given great offense and to illustrate the fact that the officials have tried to punish guilty men whenever the evidence was to be had.

There have been both competent and incompetent officials. All I care to say on this point is that I believe the military officials have compared very favorably with the civilians. Let me add the testimony of an old civilian official. He said in effect: "Here in the Dominican Republic I have seen what I long hoped to see, but have despaired of seeing in the United States, that is, a body of men devoting all their energies to governing a community to the best of their ability, with no selfish interests at stake. It has been an inspiration to work with them." I share his sentiment though my personal information is meagre.

It is difficult to pass an opinion on the claims that too many laws have been passed and too many positions created. Only actual experience will

demonstrate whether the Americans have been too anxious to create in another country and under different conditions the machinery in use at home. Doubtless some modifications will be necessary. The officials tell me that one problem which has troubled them is to secure anything approaching the work done by individuals in our own country.

It is quite likely that in many instances native psychology had been ignored or misunderstood. It is difficult for men accustomed to the giving of orders to remember that they are in another country trying to help, not to supplant the natives. Yet I have met many men who displayed a most sympathetic interest in local conditions. It is also true that many natives have not wanted to help, but on the contrary, have tried to make the Occupation a failure. Conditions are not right for thorough-going coöperation.

An American Criticism. My own criticism of the operations in the Dominican Republic would lie in other directions. I have indicated that it is foolish to criticise individuals unless they are failing to carry out some clearly defined program. One can pass on the work of the collectors of customs but how can one estimate the success of a governor who must issue as orders all the laws needed in a country, unless he has men of wide knowledge and experience under him. My feeling about our administration, then, is that

its weakness is likely to lie in the organization and in the excess of devotion which each man is likely to have for his own special work. The governors have been changed too often for the best results and I do not know how much attention was paid to their peculiar fitness for the position. There seemed to me to be a lack of coördination between the different departments. For instance, I understand that the navy officials, feeling that a new dredge was needed, bought one. This dredge, however, was turned over to the Public Works Department which is charged with its operation, without previous consultation as to the type of dredge the department thought desirable. An agricultural college was started and built but it has no connection with the Department of Education. If we maintain a Military Governor what is the function of a Minister of the State Department? If the governor comes from the Navy, why should the Receiver of Customs be responsible to the Army? In other words we have assembled parts of machines on the island and have told our representatives to put them together and *make it run*. We cannot expect to be satisfied with the results regardless of the ability of the individual men. We are to blame, not they. Finally, we have made a lot of beginnings but we have carried nothing through to completion. The result is not creditable to the United States.

CHAPTER III

The Financial Situation

THE gold standard was adopted by the Dominican Republic in 1894. No gold was coined but a considerable amount of debased silver currency was issued. The rate of exchange fell to

five pesos for one dollar and this rate was accepted by the government in 1905 when the American gold dollar was accepted as the standard. The older paper currency has disappeared

but some of the silver (pesos and fractions) is still in circulation. Taking advantage of recent high prices in the year 1919, about \$150,000 of this currency was shipped and sold with a profit to the government of \$55,000 over all expenses. American currency is gradually replacing the native and large amounts of American paper money are in circulation.

Debt. The total debt as of June 30, 1921, was \$12,572,290 (I believe there are some unsettled claims not included) made up as follows:

Balance of the \$20,000,000 loan of 1908	\$8,332,300
1918 Bond issue for payment of floating debt	1,739,990
1921 Loan	2,500,000
	\$12,572,290

Financial History. In 1904 the Dominican Republic found itself in a difficult financial situation, the interest on the debt being in default. Foreign loans had been made recklessly and the creditors were pressing for settlement. In accordance with the provisions of one such loan, the United States took over (October, 1904) the collection of customs at Puerto Plata. This led other countries to the idea of taking over other ports. To avoid this, the United States and the Dominican Republic entered, on the request of the latter country, in February, 1905, into a protocol taking effect April 1, 1905. An American was sent down who examined the outstanding liabilities of the country which then amounted on paper to over \$30,000,000 but which were scaled down to about \$17,000,000. The two countries entered into a new convention in 1907 and in 1908 a re-funding loan of \$20,000,000 was secured in the United States. The principal features of this convention were that all the Dominican customs should be collected by a Receiver General appointed by the President of the United

States. Not more than 5 per cent of the receipts should be allowed for the expenses of collection. The Receiver General was to pay on the first of each month to the fiscal agent of the loan (the Guaranty Trust Company of New York has served in this capacity) the sum of \$100,000 with the additional proviso that, if the revenues collected in any year amounted to over \$3,000,000, one-half of the surplus should be applied to the sinking fund for the redemption of bonds. The balance collected was to be turned over to the

Dominican Government or put in the sinking fund as the said government might direct. The first sentence of Article III is very important: "Until the Dominican Government has paid the whole amount of the bonds of the debt its public debt shall not be increased except by previous agreement between the Dominican Government and the United States." This convention has been carried out and the loan steadily reduced as the statement above indicated. Should normal conditions obtain, the entire loan will have been paid by 1925 and the financial receivership terminate.

Internal Dissensions. Internal turmoil in the country, however, coupled with the prevailing practice of government officials of buying supplies without special authority, of looting the offices of everything movable and the failure to pay official salaries, created considerable obligations. The Dominicans appear to feel that these obligations had nothing to do with the convention but it is difficult to understand, much less accept, such reasoning. In 1912 the United States was forced to

consent to an additional loan of \$1,500,000 which was finally paid off in 1917.

The internal dissensions increased rather than diminished and at the time of the intervention in 1916 there was a deficit in the treasury of some \$14,000 and outstanding claims amounting to about \$16,000,000. A claims commission was appointed in 1917 and the claims cut down. To meet these obligations the Military Government authorized the issuance of bonds bearing 5 per cent interest, not to exceed \$5,000,000. Actually, the bonds issued totalled \$4,161,300. These bonds were for twenty years and were secured as an additional charge on the revenues collected by the Receiver General. In 1920 this loan had been so reduced that it looked as if it would be all paid by the end of 1922, but the financial slump will probably delay final settlement.

In 1921, after the United States had announced its desire to withdraw the military forces, it became necessary to float a loan of \$2,500,000 at 8 per cent to pay certain obligations and finish

some of the public works. This loan was sold to the highest bidders, the Equitable Trust Company, and Speyer and Company at 96½. Much criticism was made of the high cost of this loan but comparison with other loans of about the same date shows that the interest rate was not exorbitant. The *Literary Digest* for September 17, 1921, contains the table of recent bond issues found below.

Under normal conditions the financial outlook of the country is very good and if sound financial methods are adopted it may look forward to an era of prosperity. Some discussion of the internal revenue will be found on p. 181.

During the financial depression it is doubtful if the governmental revenues will be adequate for the present budget. Many Dominicans recognize this and see also that loans may be necessary and that they can be secured only in the United States. As already indicated there are many who would welcome the borrowing of funds sufficient to finish the public works program as well as to meet current expenses.

RECENT BOND ISSUES

<i>Country</i>	<i>Amount</i>	<i>Rate</i>	<i>Maturity</i>	<i>Offered at</i>	<i>Yield</i>
France	\$100,000,000	7½	1941	95	8%
Belgium	30,000,000	8	1941	100	8.10
Chile	24,000,000	8	1941	99	8.21
Brazil	50,000,000	8	1941	97	8.25
S. of S. Paulo	10,000,000	8	1936	97	8.47
Dominican Republic	2,500,000	8	1925	100	8.

CHAPTER IV

Proposals for Withdrawal

IN the proclamation of November 29, 1916, made on the entrance of the United States into the Dominican Republic, it was stated: "The Occupation is undertaken with no immediate or ulterior object of destroying the sovereignty of Santo Domingo, but is

designed to assist the country to return to a condition of internal order which would enable it to observe the terms of the treaty concluded with the United States in 1907, and the obligations which rest upon it as one of the family of nations." The only possible inter-

pretation to be put on this is that the United States planned to withdraw its forces at the earliest possible moment.

December 23, 1920, a proclamation was issued by President Wilson which stated that the United States was ready to withdraw and suggested ways and means. Into the detailed suggestions we need not enter as they were not followed. Dominican opinion was not ready for action. Many felt that this was a political device of Mr. Wilson to embarrass the incoming administration. Nearly everyone thought that less could be secured from the administration which had ordered the intervention than from a new one politically opposed to the first. Certain remarks of Mr. Harding had been taken to indicate a very friendly feeling on his part. Moreover, there was a widespread feeling that the United States was drifting into war with Japan and that much could be gained by waiting. Hence the "Wilson Plan," as they call it, produced no other result than to start into activity the local politicians.

Harding Plan. On June 14, 1921, what is now known as the "Harding Plan" was proclaimed by the Military Governor. The essential features of this plan were:

Ratification of all acts of the Military Government; validation of the last loan of \$2,500,000; the extension of the duties of the General Receiver of Customs to cover this loan and to handle part of the internal revenues should the customs revenue be at any time inadequate; the Dominican Government to ask the United States to organize the *Guardia Nacional* to be organized by Dominicans, and by Americans (for such time as may be found necessary to effect the desired organization).

When a treaty covering these points had been drawn and accepted the military forces would be withdrawn. To make a beginning the Military

Governor called for an election but the Dominicans refused to put the machinery in motion and on July 27, 1921, a second proclamation was issued stopping further procedure "until such time as the success of an election may be assured." No action has been taken since. The last sentence in this proclamation was:

By instructions of the Government of the United States announcement is hereby made to all concerned that the procedure of evacuation of the Dominican Republic, outlined in the proclamation of June 14, 1921, and the terms of the proposed convention of evacuation were fully and carefully considered by the United States prior to the issuance of the proclamation and that the Government of the United States sees no reason for any departure therefrom.

This statement must be considered as the answer of the United States to the violent protests which were at once made in the Dominican papers. Seemingly the whole country was opposed. There were meetings and demonstrations galore. It was demanded that the troops be instantly removed and full control turned over to Dominicans at once and without any restrictions. One enthusiastic speaker at Santiago suggested wringing the neck of the American eagle and throwing the carcass in the dust. Others claimed that the method of calling the elections was unconstitutional and that it would not do to have an election as long as the marines were in the country. In order properly to evaluate this protest we shall have to consider what was taking place behind the scenes. Let us begin at Washington.

Whatever the new Administration thought of Mr. Wilson's policy, to just the extent that it disagreed, it would be careful not to make further blunders. Inasmuch as the United States could care nothing about the specific details of the plan for removing the military

forces it must have sought to secure certain things which it considered fundamental. Naturally it would discuss the plan with prominent Dominicans. Of these there was a committee at Washington headed by ex-President Henriquez y Carvajal. It is natural to assume that they told the State Department that the proposed plan was fairly satisfactory and would be accepted by the Dominicans. One of them told me that such was the case. Naturally, therefore, when the plan as issued was opposed there was no reason to change it for what assurance could be given that another plan would be more acceptable.

Native Opposition. I have reason to believe that the plan, in general outline at least, was known to the Dominican press and politicians in advance of publication. It was decided to reject it; hence, when issued, the opposition was already prepared. I suspect that some of this grew out of a desire to make impossible the later election of Henriquez y Carvajal as president, which might easily happen if he could pose as the man who influenced the Americans to withdraw. It may be merely coincidental that he soon announced that he would not be a candidate. The real local difficulty seems to have lain not in the method of calling an election but in the uncertainty as to the outcome of an election at which Americans preserved order. No political leader dared risk it; hence the deadlock. When, therefore, the United States "stood pat" on the plan the politicians were nonplussed for the net result of their antagonism was the indefinite postponement of the departure of the marines, the very thing they most wanted to accomplish. After publicly proclaiming abstention from voting as a patriotic duty it was not easy to come out and ask for an election. Although the leaders by October

had agreed to the election it had not been asked for up to the time of my departure. As a matter of fact the intelligent Dominicans were ready to ratify the acts of the *de facto* government, and to grant all the other things with the possible exception of having American officers in the Guardia. They felt that this would mean not foreign assistance but foreign control.

We must not take too seriously the arguments used in the heat of discussion. One merchant in talking to me demanded the immediate removal of the marines. I replied that I wished they could leave the next day and never return. "Oh no," he said, "you mustn't do that; all my property would be destroyed." "By whom?" I asked, and he grew strangely silent. Thinking Dominicans all know that a native government must be in existence before our troops are moved.

It might be inferred from what has just been said that all the Dominicans want us to leave. Many do. Many say that they have learned their lesson and that the day of revolution is over. Others are not so certain. There are a good many able Dominicans who want the United States to keep control of the country for twenty-five years. These men are not talking for publication for obvious reasons. They do not hesitate to criticise the Americans but they despair of peaceful and honest administration by their fellow countrymen, just now. They say, and I believe them, that there are plenty of Dominicans with adequate ability but that it is impossible to get these men into office.

Foreign Opinion. I met only one foreign resident (and he was an old Irishman just back from a year in Ireland) who did not believe that continued American control was necessary if the country was to prosper. Some of them said that things were likely to run

quietly for a few years but that if we left now it was a question of a short time only until we should be compelled to return and, to them, it seemed better that we should stay and finish the job rather than have to begin all over again later on. When I recall that among these men were Englishmen, Germans, Italians and Spaniards as well as Americans, many of whom had lived a generation in the country and had married native women, I am compelled to believe that their almost unanimous opinion should carry great weight. The reader should remember that I am not here expressing my opinion as to our national policy but that I am trying to state all the facts pertinent to a given situation.

I may be permitted to summarize my impressions. The Dominicans are not antagonistic to Americans. Quite the contrary. They are, however, critical of the policy of our government. They feel that it sent the troops either under false pretenses or through error. They admit that the Military Government has done some good things as well as some bad things and that the cases of cruelty have been incidental. It seems worse, however, to have offenses committed by foreigners than by natives. They argue that, even accepting our view that they violated the convention by allowing an internal debt to arise, the convention did not give the United States any right to intervene, as long at least as the foreign obligations were maintained. They recognize the growing economic dependence on the

United States and they will welcome better trade relations. They assure us that if we guarantee them freedom from foreign interference they will willingly enter into offensive and defensive alliance with us and forever assure us that no territorial rights will be granted to other nations. On paper at least they can make out an excellent case.

Our Future Course. The Government of the United States has pledged itself to withdraw from the Dominican Republic within a short time, provided certain things are done. Inasmuch as there is little fundamental objection to these things, in my opinion they will be accepted. In that case we shall have no option. If, however, for any reason the Dominicans refuse to accept the conditions and no harmonious phrasing is discovered which will satisfy both parties we shall have to decide on our policy and program. Unless we then withdraw unconditionally I think it obvious that we should replace a military by a civil government; that we should select competent men, and maintain and support them. We might well consider the advisability of changing our tariff relations to promote trade. Such a course has long been recommended by the present Military Government. It is, however, not within the scope of my report to enter into such questions. I am glad to say in closing that in my opinion we shall find a solution to present difficulties and shall be able to develop the most friendly relations with the Dominicans.

Some Reflections on Our Policy

HITHERTO I have limited myself as strictly as possible to a statement of conditions as I found them, giving but the minimum of historical background. In closing the report I must state a few of my own conclusions.

Insofar as I can see there are but three general policies which might be adopted by the United States with reference to Haiti and the Dominican Republic:

(1) Withdraw and refuse to accept any responsibility for what happens in either country; refuse to intervene again and refuse also to let any other country intervene.

(2) Withdraw and refuse to intervene again, but let other countries do as they please in regard to the collection of debts or the establishment of naval bases.

(3) Continue the intervention, promising to withdraw as soon as conditions make possible the restoration of autonomy.

When I went to Haiti I was inclined to feel that the first course was the best but I left convinced that it was not. There are many who believe that it is but they have often weakened their case by impugning the motives of those who differ from them. They are inclined to claim that everything done by our government is done for selfish reasons and dominated by deceit and cruelty, while accepting all claims of other nations at their face value.

The fundamental cause of the muddle in which we find ourselves in Haiti and the Dominican Republic is a lack of a clear understanding of the problem and our relation thereto. The older concept of the Monroe Doctrine was

negative. We said to Europe "hands off" but accepted no definite responsibility ourselves. This attitude on our part was, and is, a guaranty of independence to the two other countries without which it is doubtful if they could have maintained themselves. More recently we have encountered a rising insistence in Europe that we should assume responsibility or else permit other countries to intervene as they might deem best. Under this pressure we have intervened in a half-hearted sort of way. Unless we are prepared to surrender the Monroe Doctrine, and of this I see no sign, the time has come for us to assume definitely the responsibilities it entails and to work out some definite policy. Unless we do this it might be better for us to get out and stay out.

A century ago men, sensing an idea a little beyond their powers of expression, spoke glowingly of "individual rights" as if they arose and existed apart from society. We know today that rights flow from society and are determined by it. To society the individual is responsible, and when the commands of society are violated, the individual is punished; that is, his rights are limited. Society judges the individual by his actions not by his size. It recognizes that individuals differ and that the rights granted must be proportionate to the sense of responsibility developed by the individual. The insane man must have a guardian. When we deal with defective persons we do so not to punish them but to assist them and to protect others, that is, society.

Inter-Group Relationships. Just now we are passing through a similar development of thought and practice

as regards inter-group relations. "Self-determination" in international relations corresponds to the "inalienable rights" of individuals a century ago. Just as our ancestors learned that they had to draw a line between the normal and defective individuals before the law, so we are learning that international law must distinguish between groups of individuals primarily on the basis of their actions, that is, their development of a sense of responsibility. The analogy is not perfect for we must assume that any group has the inherent capacity to develop, an assumption which is not always true of the individual.

In earlier days a man might take to the wilderness or the woods and live an isolated career almost independent of society. Such a life is decreasingly possible today. Tribes, races, countries in the past have had at times but casual contact with other groups but that too has become almost impossible. We are living today in a world of closely related groups and our philosophy of group relations must change to fit the facts. It was said of old, "No man liveth unto himself," and today we must add, "Nor does any people." The old ideal that each group should be allowed to struggle along by itself, regardless of suffering or turmoil, until it learned self-control has become as absurd as the idea that a child should be allowed to grow up without moral training. The time is soon coming when no group of people will be allowed the exclusive jurisdiction of any spot of earth unless they so conduct affairs that the welfare of others is conserved. That it will take a long time to standardize these new relations is freely admitted. That there are dangers is equally evident. The point is that now nations as well as men must ask, "Am I my brother's keeper?" The welfare of Cuba may depend as much on the tariff

laws of the United States as on the labors of the Cubans.

If the outside world is to intervene the questions of when, where, how, will have to be settled. The individual is most affected by the actions of his neighbors. If a man on the adjoining place begins to shoot indiscriminately with a high-powered rifle I am immediately involved regardless of whether he intends to do me harm or not. In an organized society I invoke the law. Under frontier conditions I handle the problem myself. In the present state of world organization we must follow the program of the frontier. The important thing is the clear recognition that each community must so conduct itself as to offer no threat to the safety of others. The large groups have rights as well as the small. Those societies which desire to be considered as nations must show themselves able to maintain the responsibilities of nations.

I hear my Haitian friends say, "But we have long been recognized as a free and independent nation by the United States." True. The whale was long considered a fish, but its real nature was not changed by the mistaken classification of men. The difference between you and the whale is that you can become really free and independent if you will and that is what we should like you to do. We are not outsiders. You are a part of our problem because of your location. We have been confused in our attitude towards you as is shown by our indecision whether to call your island Haiti or Santo Domingo. We have neglected you in the past and for this we accept our full measure of blame but we are determined that the future shall tell another story. Your old programs of revolutions and indiscriminate borrowing of money must stop, not only because it checks your development but because

it has become a source of danger to us. Just now, to be sure, there is little danger of interference by another nation but we do not know what fifty years may bring forth and we have decided that it is easier to keep other nations out than to put them out.

Every American with whom I have talked would prefer to let the island go its way without interference. I have never met anyone who desires to destroy the sovereignty of either government and no one ever suggests that the island should be absorbed into the United States. America is ready to continue its guaranty of independence but it seems ready also to insist on certain reforms. Now if we may grant the sincerity of the government at Washington, and I see no reason to question it; what shall we do, for it is evident that we will not let other nations intervene.

A Suggested Policy. I believe the United States should again declare to the world:

(1) That it will maintain the integrity of Haiti against itself as well as against the rest of the world:

(2) That it asks for no territory from Haiti but assumes that in any future emergency Haiti will grant the use of any facilities needed as a return for the promise of the United States to protect it against invasion:

(3) That for the time being the United States proposes to maintain law and order in Haiti and to try to put the country in a position which would make possible an orderly future development.

Such a statement should at once be followed by the sending of a consul to Haiti vested with full authority, to whom all other American representatives should be subject. Provisions should be made for the re-funding of the Haitian debt and I personally feel that our tariff laws

should be modified to permit the entrance of Haitian (and Dominican) goods on the same terms as those of Cuba.

The objections to this policy as generally stated are that the Haitians do not want it and that we should find that closer economic relations would lead to a demand for permanent control, which would be for the interests of the supposedly wicked capitalists. In my opinion the great majority of the Haitians would welcome such a program and the fact that some would not should not be allowed to determine our actions. I do not think that Haiti is fitted for self-government at the present time. I do not ignore the dangers of this policy but I think they are less than those of the opportunist program of the past. The claim that our intervention in Haiti was dictated by financial interests can be made only by those who are ignorant of the facts. It should not be overly difficult to prevent improper exploitation in the future. Just now Haiti needs capital and needs it badly. The fact that we have not accomplished all that we should in Haiti and that we have done some bad things are in themselves no arguments whatever that we should now withdraw.

Difference in the Dominican Situation. The situation as regards the Dominican Republic is different in that we have offered to withdraw under certain conditions and we must keep our pledge if the conditions are accepted. While the Dominicans are further advanced than the Haitians their future is somewhat problematical and we may find ourselves forced to intervene again. I hope not, but I am not certain. I must confess that I find difficulty in understanding the offer to withdraw. The fact is that the United States made its first great blunder when it allowed Caceres to be over-

thrown and replaced by a revolutionary government. The second blunder came when it recognized the \$1,500,000 internal debt under Nouel. These two facts convinced the Dominican politicians that they could do as they pleased. We did not intervene when we should have done so. Assuming, as I have, that Washington felt justified in the original intervention it is not easy to see what changes have resulted which now justify withdrawal. If we entered to enable the establishment of a stable government in order that treaty pledges might be kept, before we leave such government should be more in evidence than it is now. If we entered because of disturbed conditions during the War why did we not withdraw long ago? As for myself, as elsewhere stated, I wish we might finish the public works program ere we leave. With this idea I know many Dominicans are in agreement.

If the United States decides that it must adopt a more constructive policy with reference to these countries today, to others tomorrow, perhaps, it should try to remedy certain weaknesses in our home situation. For instance, we should be very careful how we send to Haiti as our representatives American Negroes, regardless of their personal qualifications. Such action is not welcomed by the Haitians. They do not want to be mixed up in the race problem of this country.

A more serious matter grows out of the fact that five and six years ago at the request of the State Department our marines were sent to the island. During all this time Congress has never directly approved or disapproved the action. It is foolish to claim as has been done that Congress has not indirectly approved, for it has known the facts and has voted the necessary appropriations. I feel, however, that no department of government should

be allowed to involve the entire country in such fashion without the express approval of Congress.

The Selection of Leaders. It seems to me also that we should devise ways and means to attract into the State Department able men who might find there permanent careers. It does not make for our peace of mind to find the immediate control of such important matters in the hands of a succession of young men. An inexperienced man should not be in a position to determine whether the report of the commanding officer in Haiti or the Dominican Republic should or should not be shown to the Secretary of State. The men on the ground are vastly better informed of actual conditions than any office man can be, but we can at least make sure that a man of corresponding ability and experience sees his recommendations. It is, of course, the system and not individual men that I have in mind.

Furthermore I believe that more attention should be paid to the selection of civilian and military leaders with special aptitude for the particular tasks to which they are assigned. The Marine Corps is intended to be a fighting body and we should not ask it to assume all sorts of civil and political responsibilities unless we develop within it a group of specially trained men. I consider it a foolish and dangerous thing to send raw recruits, whether men or officers, into places where their actions have definite and important political results. I know that military men are not always to blame for the limitations under which they work. Because of some law the marines in Haiti are compelled to spend thousands of dollars for tents which rot out in a year instead of building at a fraction of the cost simple cabins of palm-boards which would be much more permanent and convenient.

Our Increased Responsibility. One of the results of recent years is the greatly increased responsibility of the United States. I have tried to indicate the difficulties we have encountered in the formulation of policies which will help us to carry this responsibility. I have tried to be both honest and fair. While I have been critical both as regards our activities and those of the Haitians and Dominicans I trust I have not been either hyper- or hypo-critical. I look back with pleasant memories to my months on the island and I look forward towards the coming of better and more cordial relations between the respective governments. Everyone must sympathize with the desire of the Haitians and Dominicans to be free and independent and our constant effort should be to help them realize their desires by the cultivation of that sense of responsibility without which freedom and independence are empty terms.

Book Notes

THE following is a brief list of the best books on Haiti and the Dominican Republic. Unfortunately a number are out of print and are hard to find. With one or two exceptions they deal with the economic, social or political life of the people. No attempt is made to list the many magazine articles of recent years but a few réprints in pamphlet form are included. One who desires to get details of recent events will not need to be told to look in the reports of the Departments of Navy, State or Commerce, the Bulletins of the Pan-American Union in our country; or similar publications of the other governments.

HAITI

Colonial times:

Moreau de St. Mery, M. L. E. *Description Topographique, Physique, Civile, Politique et Historique de la Partie Française de L'Isle de Saint Domingue*, 2 Vols. Philadelphia, 1797. A mine of information.

Stoddard, Lothrop. *The French Revolution in Santo Domingo*. New York, Houghton, Mifflin Co., 1914.

Wimpffen, Baron, F. A. S. *de Saint Domingue à la Veille de la Révolution*. Edited by Albert Savine, Paris, 1910. (Louis Miebaud.)

An English edition was issued in London 1797 under the title, *A Voyage to Santo Domingo in the Years 1788, 1789, 1790*. Probably the best contemporaneous account.

Recent times:

Tippenhauer, Louis Gentil. *Die Insel Haiti*, 2 Vols. Leipzig, 1892. In many ways the best book on Haiti where the author was born and lives.

St. John, Spencer. *Haiti, or the Black Republic*. 2nd edit. N. Y., 1889. Extremely critical. Author an English official long resident in Haiti.

Aubin, Eugene. *En Haiti. Planteurs D'Au-trefois, Nègres D'Aujourd'hui*. Paris,

1910. Author formerly French Minister to Haiti. One of the very best recent accounts.

Pritchard, H. V. H. *Where Black Rules White*. London, T. Nelson & Sons, 2nd edit. 1910.

LaSelve, Edgar. *Le Pays des Nègres*. Paris, 1881. Good, illustrated account of visit with many historical references.

Vibert, Paul. *La République D'Haiti, son Present, son Avenir, Économique*. Paris 1895. Berger Levrault et Cie.

Kuser, J. D. *Haiti*. Boston, R. C. Badger. 1921. A sympathetic sketch of a recent visit.

The three following books by Haitians may be considered attempts to answer Spencer St. John for they attempt to portray the best in Haitian life and at times are too laudatory.

Prince, Hannibal. *De la Réhabilitation de la Race Noire*. Port-au-Prince, 1901.

Leger, J. H. *Haiti, Her History and Her Detractors*, New York. The Neale Publishing Co., 1907. There is a French edition also. Author was very prominent in Haiti.

Vincent, Stenio. *La République D'Haiti (Telle qu'elle est)*. Bruxelles, Société Anonyme d'Imprimerie, 1910. Illustrated description of country with many details.

The following are less general and deal with more detailed aspects. All were written by Haitians.

Marcelin, L. J. *Haiti, Ses Guerres Civiles-Leurs Causes, Leurs Consequences Présentes, Leur Consequence Future et Finale*. Paris, A. Rousseau, Ed. 1892. In a class by itself as a calm, critical study of fundamental political problems.

Féquièrre, Fleury. *L'Éducation Haitienne*. Port-au-Prince, 1906. A general survey of social and family matters. Last part on schools.

Marcelin, Frederic. *Bric-a-Brac*. Paris (Société Anonyme de Imprimerie Kugel-man) 1910. Political notes of about 1904 at the time of the bank scandal. Author was considered one of the ablest men of the country.

Magloire, August. *L'Erreur Révolutionnaire et Notre État Socialo Port-au-Prince 1909*. A thoughtful work.

Vival, Duraciné, *La Littérature Haïtienne* (Essais Critiques). Paris, Sansot et Cie. 1911. Good brief account of Haitian writers.

There are a number of stories by Haitian writers which give an excellent account of Haitian society and which have decided literary merit as well. The best that I have read are:

Marcelin, Frederic. "Epiminondas Themistocle Labasterre."

Hibbert, Fernand. "Les Thazar" 1907, "Romulus" 1908, "Sena" and "Masques et Visages" (short stories) 1910, all published at Port-au-Prince. Author is now, 1921, Minister of Public Instruction.

Finally there remains to be mentioned a book which is anathema in Haiti but which is a collection of facts, largely humorous, collected by the author while a teacher in Haiti and which is worth reading.

Texier, C. *Aux Pays des Généraux*. Paris, C. Levy, 1891.

Haiti, Chapters in larger books, pamphlets, etc.

Franck, Harry A. "Roaming Through the West Indies." New York, The Century Co., 1920. The best recent sketch.

Inman, S. G. "Through Santo Domingo and Haiti." Pub. by Committee on Cooperation in Latin-America, 25 Madison Ave., New York City, 1920.

Johnson, James Weldon. "Self Determining Haiti." (A reprint of four articles.) *The Nation*, New York, 1920.

López, J. "La Civilizacion en Haiti." A very critical article on U. S. intervention. *La Reforma Social*, New York, Agosto, 1921.

"Renseignements Financiers, Statistiques et Économiques sur La République D' Haiti." Issued by the Banque Nationale de la République D' Haiti. 1920. Tabulated statement of loans, etc.

Secretary of the Navy, Annual Report, Washington, 1920. Reviews military phases intervention.

"Union Patriotique d' Haiti. Memoir of delegates on the Political, Economic and Financial conditions existing in the Re-

public of Haiti under the American Occupation." New York. *The Nation*, May 25, 1921. The most complete statement of Haitian complaints.

"Exposé Général de la situation de la République D' Haiti." Issued yearly at Port-au-Prince.

THE DOMINICAN REPUBLIC

Early period:

Del Monte y Tejada, Antonio. *Historia de Santo Domingo*. Santo Domingo, 1890. (First pub. Habana 1893.) Contains journal of Columbus and outlines history down to 1794.

García, José Gabriel. *Compendio de la Historia de Santo Domingo*. 2nd edit. 3 Vols. Santo Domingo City, 1893, 1894, 1896.

Nouel, Carlos. *Historia Ecclesiastica de Santo Domingo*. Rome, 1913.

Recent period:

U. S. Commission of Inquiry to Santo Domingo. 42 Cong., 1st Sess. U. S. Senate, Exec. Doc. No. 9. Washington, Gov't, Prt. Office, 1871.

Hazard, Samuel. *Santo Domingo, Past and Present, with a Glance at Hayti*. New York, Harper & Bros., 1873.

Schoenrich, Otto. *Santo Domingo, A Country with a Future*. New York, Macmillan & Company, 1918. Beyond doubt the best recent work.

The Dominican Republic. Issued by office, Naval Intelligence, of U. S. Navy Department. Washington, 1916. An excellent illustrated handbook marked "confidential" for some non-apparent reason which should be made generally available.

Escritos de Espaillat (Articulos, Cartas y Documentos oficiales.) Memorial volume to President Ulises V. Espaillat. Santo Domingo, 1909.

Stories worth knowing are:

Galvan, Manuel de J. "Enriquillo" (*Le-yenda Historica Dominicana*). 1503-1533. Santo Domingo City, 1882. One of the best historical novels of Spanish America.

Cólson, Jayme. *El General Babieca*, 2 Vols. Puerto Plata, 1916 and *El Cabo Chepe*, 1918. Colloquial. Author a well-informed man.

- Cestero, Tulio M. *La Sangre (una Vida bajo la Tirania)*. Libreria Paul Ollendroff, Paris, undated.
- Godoy, Frederico García. *Rufinito, Alma Dominicana*. Santo Domingo. Considered the strongest of present writers. *Chapters, Pamphlets, etc.*
- Franck, Harry A. "Roaming Through the West Indies." New York, The Century Co., 1920.
- Inman, S. G. "Through Santo Domingo and Haiti." Pub. by Committee on Coöperation in Latin America, 25 Madison Ave., New York, 1920.
- Jones, Chester Lloyd. "Caribbean Interests of the United States." Appleton & Co., New York, 1916.
- Latané, John H. "The United States and Latin America." Doubleday, Page and Co., New York, 1920.
- Rosa, Antonio de la. "Les Finances de Saint Domingue et Le Controle Américain." (A. Pedrone Ed.) Paris, 1915.
- Verrill, A. H. "Port Rico, Past and Present, and Santo Domingo of Today." New York, 1914.
- "Santo Domingo. Its Past and Present Conditions." 1920. Description handbook issued by the American Occupation.
- Critical surveys of local conditions by Dominicans are rare but there should be mentioned:
- López, José B. *La Paz en la Republica Dominicana*.
- Peynado, Francisco J. *Deslinde, Mensura y Partición de Terrenos*, in *Revista Juridica*, Santo Domingo, 1919. Author one of ablest lawyers in the country. *Ibid. Por El Establecimiento del Gobierno Civil en la Republica Dominicana*. Imp. De Cuna de America, Santo Domingo, 1913.
- Mella, Moises García. *Por El Establecimiento del Gobierno Civil en la Republica*. Imp. Cuna de Am. Santo Domingo, 1914.
- Report of the Department of State, of Finance and Commerce of the Dominican Republic for the Period 1916-1919. Santo Domingo, 1921.* A valuable summary of facts.

Book Department

Waste in Industry. Published by the Federated American Engineering Societies. Pp. 406. Price, \$4.00. New York: McGraw-Hill Book Co. Inc., 1921.

The conclusions of this report ought to dampen the enthusiasm of the most outstanding believer in the reputed efficiency of American industry. Many of its findings have been known to a select few for some time and many of its recommendations have been previously made by specialists. Much of the importance of the report is derived from the cumulative character of its evidence, which attempts to evaluate a summary of waste in industry from all contributing factors; and its importance is no less due to the impartial and authoritative source of the report. The Federated American Engineering Societies was organized in the latter part of 1920 and selected this study as one of its first tasks. The plan was to make a survey quickly as a basis for action and as a foundation for other studies. The present report, completed within less than five months, covers representative establishments in six industries, namely, building trades, men's ready-made clothing, boots and shoes, printing, metal trades and textile manufacturing. In addition to these industry studies, seven reports were prepared, dealing with nation-wide or general aspects of industrial waste, such as unemployment, industrial accidents, health and eye conservation.

In reading over the summary of findings in this report one is reminded of Mr. Brandeis' statement, now several years old, that the railroads could save \$1,000,000 per day on purchases and it appears that, despite the storm of disapproval with which it was met in certain quarters, that statement may well have been true. Waste in industry is found by the engineers to be attributable to (Report p. 8):

1. Low production caused by faulty management of materials, plant, equipment and men.
2. Interrupted production caused by idle men, idle materials, idle plants, idle equipment.
3. Restricted production caused intentionally by owners, management or labor.

4. Lost production caused by ill-health, physical defects, and industrial accidents.

On the question of responsibility, the report concludes that over 50 per cent of existing waste is due to management, less than 25 per cent to labor and least of all to outside contacts.

In arriving at the quantitative aspect of waste, comparison was made not with some impractical ideal but with standards that have been established and are actually being attained. The fact that the field work of the report was done by experienced engineers thoroughly familiar with the industries they were studying lends additional force to their findings. The following quotations tell the story in part:

The loss from idleness in shoemaking occasioned by waiting for work and material amounts to some 35 per cent of the time.

Among current magazines there are 18 variations in width and 76 in length of page or column. Among trade paper publications there are 33 variations in width and 64 in length. Among newspapers there are 16 in width and 55 in length. These variations cost the public not less than a hundred million dollars each year.

The average loss in clothing factories during running time, not including shut-downs, is between 30 and 35 per cent. Fixing the value of annual output in the men's ready-made clothing industry at \$300,000,000, it should be relatively easy to save three-quarters of a million dollars a day, an increase of 40 per cent in effectiveness.

Clothing factories are built 45 per cent larger than is necessary; printing establishments are from 50 per cent to 150 per cent over-equipped; the shoe industry has a capacity of 1,750,000 pairs of shoes a day, and produces little more than half that number.

Pressroom workers have been known to insist that a compositor be brought from the composing room to make the change to the next imprint, while they stand idly by.

Structural steel workers under certain rules must bring the steel from the unloading point to the building site, thus doing laborers' work at high cost.

The report is marked "first edition." It is to be hoped this implied promise is fulfilled.

filled; that this is just a beginning and that the American public, industrial management and labor will become so thoroughly awakened to industrial waste and to possibilities of elimination as to bring about concrete results in the future.

BRUCE D. MUDGETT.

University of Minnesota.

WHITE, PERCIVAL. *Market Analysis. Its Principles and Methods.* Pp. 340. Price, \$3.50. New York: McGraw-Hill Book Co. Inc., 1921.

This book will probably meet with a ready sale for it is written in a style to attract the general reader and it is filled with suggestions that may be used to advantage by the business executive who is searching for means to rehabilitate his dwindling business. It should be in demand, also, in courses in marketing in colleges and universities.

The first few chapters are devoted to methods of collecting, analyzing and presenting the data obtained from market surveys; the later chapters, to the data that is to be obtained. The discussion of the questionnaire method of gathering information, in one of the earlier chapters, is good and is reinforced by a number of examples of questionnaires that have been used in actual market surveys. Indeed, throughout the book the author shows his familiarity with many surveys that have been made.

That part of the book dealing with the data to be gathered discusses in turn the product, the company, the industry, the company's competitors, its customers, etc. These chapters, in a very satisfactory way, offer suggestions as to the means by which the condition of trend of an industry may be determined and the position of a particular company within the industry established.

A very excellent feature of the book, which might well be copied by other authors, is the practice of inserting at the beginning of each chapter a skeleton outline of the contents. The author states in his preface that it is his intention to make revisions from time to time and to keep the book up to date.

To statisticians, I suspect the book will

appeal rather as a sign-post than as a set of traffic regulations. Its emphasis is more on the nature of the market than upon methods of analysis. But such emphasis is probably more needed in this field than an extended exposition of the statistician's art. Indeed the author has some misgivings in regard to statisticians, for he says, "There is danger in becoming too technical in interpreting figures and fact" (p. 61).

BRUCE D. MUDGETT.

University of Minnesota.

POSTGATE, R. W. *Revolution from 1789 to 1906.* Documents selected and edited with notes and introductions. Pp. xvi, 400. Price, \$4.50. New York: Houghton Mifflin Company, 1921.

Mr. Postgate is well known to students of radical movements because of his other volumes, one of the most recent being *The Theory of Bolshevism*. In the volume under consideration he has presented a selection of documents that are admirably chosen and arranged, and prefaced with suitable introductions. The editor's sympathies could not be entirely concealed, but this difficulty he frankly acknowledges in the preface. After all, a selection without any point of view would be a poor one, and only a sympathetic editor should undertake the task of selection. A hostile one would probably fail to present what is needed—a picture of the revolutionary impulse, the soul of the movement. Also it should be noted that some of the decisions as to dates and documents are of necessity arbitrary.

The documents chosen are grouped into six chapters dealing with the French Revolution of 1789, the Intermediate Period, the Revolutionary British Working Class, 1832-1854, the Revolutions of 1848, the Commune of Paris and the Russian Revolution of 1905. The unreflecting conservative is destined to a rude shock when he finds the first selection in the volume is a section of the American Declaration of Independence. It is introduced, the editor explains, because its statement is of those principles which inspired the French Declaration of the Rights of Man. The fourth chapter, dealing with incidents from 1848 to 1855, prefaced by the Communist Manifesto and covering

France, Hungary, Italy, Germany and Ireland, is quite naturally the longest.

Not all critics would agree with some of the editor's judgments, as, for example, his belief that the character of the revolution in Europe changed somewhat abruptly in 1848 from bourgeois to proletarian. But such criticisms should not obscure the fact that Mr. Postgate has prepared a most valuable and usable collection of documentary material, and that the publishers have presented it to the public in a very attractive dress.

ERNEST MINOR PATTERSON.

University of Pennsylvania.

RATHENAU, WALTER. *In Days To Come*. Pp. 286. Price, \$5.00. New York: Alfred A. Knopf, Incorporated, 1921.

Walter Rathenau has just returned to the Wirth Cabinet as Foreign Minister. As a leader in German business and politics, his views would deserve our thoughtful attention were there no other reasons for noticing them. But, in addition, his influence has been a powerful one in the reconstruction of German industrial life, and the economic organization of Germany today clearly reflects his views expressed a number of years ago in his *Die Neue Wirtschaft* and *Die Neue Gesellschaft*.

This volume is a translation of *Von Kommenenden Dingen*, the most widely read of his numerous books, and has been well translated by Eden and Cedar Paul. In it Rathenau shows, as in his other writings, that remarkable and rare combination of the business man, the statesman and the idealist. To him the existence of a vast proletariat is a cause for shame and indignation. The nineteenth century brought a vast economic mechanism—materialistic, coercive, ruthless and antagonistic in its operation. Its task is "to nourish and maintain our teeming race"; but the thing needed is "a re-guidance of the spiritual," for "the heart is the supreme arbiter of all human happenings" and "all earthly activities and aims find their justification in the expansion of the soul and its realm." Our "goal towards which we strive is the goal of human freedom." Education, the corporate form of organization and the wider diffusion of administrative experience

have brought threats to "the hereditary stratification of capitalism."

But orthodox socialism is as senseless and as abhorrent to him as the crumbling structure of capitalism. Instead, our aim should be socialization, to be achieved by sweeping economic modifications, by a changed morality and by a will to achieve the goal. In this we must assent to the grant of power to the state, which "will become the moving center of all economic life." This state, however, will be vastly different from the one we know and will be a much more effective instrument for world welfare.

The volume is stimulating and inspiring. It is to be hoped that our publishers will rapidly increase their reprints and translations of leading European volumes. Wide reading by Americans of the great books of other countries will be one of the most helpful influences that could be injected into our thinking at this critical time.

ERNEST MINOR PATTERSON.

University of Pennsylvania.

JONES, WALTER. *Capital and Labor, Their Duties and Responsibilities*. Pp. viii, 168. Price, 2/6. London: P. S. King & Son, Ltd., 1921.

Every now and then some layman, with inadequate economic training, becomes so imbued with a pet scheme for healing the industrial ills of society that he cannot refrain from putting his ideas before the public. Mr. Jones lays himself open to severe criticism in this book, which bristles with economic fallacies. He believes that the distraught condition of world affairs today is largely due to two causes: the lack of a brotherly spirit between capital and labor, and the exaction of usurious rates of interest by the owners of capital. His genial recommendation for better coöperation between workers and employers is commendable, though hardly original; but his suggestions for stopping the "drain upon the nation" caused by high interest rates are ludicrously naïve. He would by law prohibit a rate of interest on loaned capital in excess of 2 per cent, and would have the government of Great Britain aid in reducing the rate of interest by supplying an abundant quantity of "liquid capital" for British industry in the form of an issue of

paper money, recommending not less than one billion pounds of "credit notes" for the purpose! Further comment is superfluous. The book is obviously a vehicle for exploiting the author's mischievous ideas on interest and money, which cannot be too positively condemned.

RAYMOND T. BYE.

University of Pennsylvania.

SIMPSON, KEMPER. *Economics for the Accountant*. Pp. 206. Price, \$2.00. New York: D. Appleton & Company, 1921.

The publication of this volume shows the trend of accounting thought at the present time. During the last decade, while there has been a wealth of literature upon accounting subjects, there has been little written, in book form, dealing with accounting as an application of economics. The student of accounting will find many and diverse text books upon the treatment of transactions in books of account and upon the preparation of business statements. He will also find a complete assortment of published material setting forth the theory of accounts, but after diligent search he will find but little literature written for the express purpose of discussing the relation between economic conditions and their expression in books of accounts and statements. Mr. Simpson attempts to present this relation and, taking all things into consideration, he is successful.

The thought in the mind of one who begins to read this book, namely, that no more than an outline of economic theory can be given in a book of two hundred pages, a portion of which is specifically devoted to accounting, is found to be true as he progresses through the volume. One must take for granted that the economic theories expressed are correct. There is no space for discussion. At the present stage in the development of accounting literature this is probably an advantage because many of those who study accounting are sufficiently short-sighted to avoid long discussions upon theory in order that they may leap at once into practical applications. It is to be hoped that such persons will read this book.

Concerning the theories expressed in the

volume, it may be stated that the author has conformed to the modern school of thought in both economics and the application of economics in accounting. It is to be supposed that there will be some who will not agree with all of the theories presented; notably those concerning the inclusion of interest in manufacturing cost, and value. This may be expected in the handling of any subject which is not an exact science.

The arrangement of the material in the book might be improved upon. The references to subsequent pages and chapters are too frequent. These references cause confusion in the mind of the reader instead of assisting him toward continuity of thought. Appendices I and II, upon "Interest as a Part of Cost," and "Disputed Items of Cost" might better have been placed as a portion of the chapter upon the doubtful elements of cost. The reviewer also believes that the theory underlying the handling of joint-costs is placed at a point where the reader is unprepared for so technical a discussion.

The author is not conclusive in his theory of handling bad debts as a deduction from gross sales; and in his differentiation between the accountant's classification of cost and the economist's classification of cost he is rather willing to concede the submerging of the underlying economic theory in its presentation upon the books. Furthermore, there seems to be more or less confusion concerning the use of the term "accounting cost." It is not clear whether the author means to use it in the sense of manufacturing cost or total cost. The author is, however, to be commended for the stand which he has taken concerning the appreciation of capital goods. Some theorists have permitted their theory to over-rule their better judgment in this connection.

It is to be hoped that the publication of this book will influence future writers in order that there may be sufficient literature for the student of economics who desires accounting knowledge, and for the student of accounting who desires economic knowledge.

THOMAS A. BUDD.

University of Pennsylvania.

UNITED STATES INTERDEPARTMENTAL SOCIAL HYGIENE BOARD. *Annual Report*, 1921. Pp. 198. Washington: Government Printing Office, 1921.

FUNK, JOHN CLARENCE. *Vice and Health*. Pp. 174. Price, \$1.50. Philadelphia: J. B. Lippincott Company, 1921.

MANGOLD, GEORGE B., PH. D. *Children Born Out of Wedlock: A Sociological Study of Illegitimacy, With Particular Reference to the United States*. Pp. x, 214. Price, \$1.50. Columbia, Missouri: University of Missouri Studies, Volume III, Number 3, Social Science Series, 1921.

The perversion and prostitution of so fundamental a factor in life as the sex impulse, together with the dire consequences, constitute a chapter of appalling horror in the history of human experience. There are at least three major parts to this chapter, indicative of three more or less distinct problems that grow out of the misguidance of this normal physiological function. They are as follows: first, the venereal diseases—a problem of health and sanitation; second, the commercialized aspect—a problem of a highly organized business for exploitation and profit; and third, sexual immorality—a problem of individual conduct. Listed above are three publications, each of which bears primarily upon one of these problems. They are not exactly pleasant reading. But the tragic reality of that which they describe, and the stern necessity of what they prescribe, sharply challenge the thoughtful reader.

During 1918, the year of the influenza epidemic, influenza was the cause of 22 per cent, venereal diseases the cause of 12 per cent, of the days lost on account of sickness by soldiers in the entire American army. Such data serve to explain why the federal government, which first evidenced an interest in this whole field with the passage of the Mann Act in 1910, was led to cooperate actively with certain volunteer civilian organizations in 1916, when American troops were located on the Mexican border, and, finally, to create the Interdepartmental Social Hygiene Board on July 6, 1918, to assume active leadership in the "aggressive intergroup hygiene of the venereal

diseases." The first of the above-mentioned publications is the last annual account of the stewardship of this agency which, despite considerable opposition, has continued to function since the close of the War. The report of its four-fold activities—scientific research, educational research, protective medical measures and protective social measures—is distinctly encouraging, for it promises that, under federal leadership, two of the most dangerous and destructive diseases known to mankind are emerging out of the limbo of quackery and neglect.

The chief source of infection are the professional prostitutes. At least ninety-five per cent of their number, according to various vice commission reports, are venereally diseased. It is with the organized system, of which the prostitute is the visible representative, that Mr. Funk, who is director of the Bureau of Protective Social Measures, Pennsylvania State Department of Health, deals in his book. After briefly summarizing the causes, manifestations, business aspects and results of commercialized vice, he considers what in his judgment are the best social measures for meeting the problem. Good government, law enforcement in local communities, extensive popular sex education—these are the heart of the program suggested. A brief outline of medical and medico-legal measures for the treatment of the venereally diseased is included.

The value of this little book lies not in any contributions to our knowledge of the subject, but in the fact that it is a short, sane and readable summary of the essential facts regarding prostitution, its relation to disease, and what ought to be done in the concrete in every community that wishes to make progress in dealing with the problems involved.

"During the last twenty-five years two books dealing with illegitimacy have been written in the English language." Dr. Mangold has made a valuable contribution to a scant literature on an important social problem. His title, however, is misleading. Not the child born out of wedlock, but rather its unmarried mother is the main object of the author's study. "He is

anxious particularly to present information concerning causes and present methods of treatment" (page ix).

"The causes of illegitimacy," he says (page 184), "are largely the causes of immorality . . . the problem of illegitimacy is therefore similar and yet not identical to that of immorality. . . . It is the belief of the writer that ignorance and low ideals are the chief causes of illegitimacy" (page 41).

Relative to treatment he insists that illegitimacy "cannot be adequately handled except by persons animated with lofty social ideals and trained to work out each individual problem" (page 9C). This is just what he does not find. An overwhelming proportion of cases are handled either by commercial agencies whose traffic in infants and exploitation of mothers indicates something far removed from lofty ideals, or by public and private philanthropic agencies whose methods are antiquated, who lack social perspective, and to whom effective case-work is unknown.

The book is a calm setting forth of a depressing situation. The work shows an apt combination of scientific analysis and deep sympathy. There is an excellent bibliography.

JAMES H. S. BOSSARD.

University of Pennsylvania.

TOSDAL, HARRY R. *Problems in Sales Management*. Pp. 672. Price, \$5.00. Chicago: A. W. Shaw Company, 1921.

Modern business is becoming increasingly conscious of the necessity for a more scientific approach to the problems of distribution. Professor Tosdal's book, entitled *Problems in Sales Management*, consists in an almost exhaustive treatise of the selling history of various businesses throughout the United States. Such topics as the "Location of Sales Headquarters," "Location of Ware Houses," "Sales Departmentalization," "Scope of Research and Planning," "Qualifications of Salesmen," "Selection of Salesmen," "Market Analysis," "Districting Salesmen," "Sales Manual," "Paying Salesmen," etc., are suggestive of the comprehensive grasp of the interrelated problems confronting administrators in their search for principles to meet

the competitive and efficiency demands of modern sales management. Professor Tosdal's analysis of these factors is suggestive of "a method which employs the habit of making decision upon facts and evidence rather than upon guesswork."

Practical problems for student analysis have been selected with a view "to bring out the high spots in sales management and are all based upon the experiences of going concerns."

The arrangement of materials and the problems suggested aim to develop an appreciation of the significance of the functional place of principles in relation to increased efficiency in sales administration. This book in its concrete presentation of actual working situations should be invaluable to present-day sales administrators and executives who have the mental capacity to appreciate the value of utilizing the experiences of others.

Because of its abundance of verifiable material and accuracy of analysis this text should come to have a definite place in the study of modern selling problems. From a university point of view involving instruction, however, its material implies a background much more elemental and fundamental than the writer discloses. In other words, this text is more nearly adapted to graduate students who have had intensive courses in more sciences than psychology. Modern distribution implies physiology, biology, sociology and political science. Administrative sales management will never attain the dignity of professionalism until sales policy is based on the correlated flowering concepts involved in the humanities. The technique of the subjective aspects is more suggestive in this book than a reality. However, Professor Tosdal's mastery of the objective phases of sales management is complete. The future will have as its contribution to the field of distribution that master mind, capable of selling administration, whose outlook is capable of unifying the subjective individual growth concepts with those of objectivity. The correlation of these two processes, the subjective and objective, gives freedom so to create in terms of principles that business organization may function for the common good of consumer, distributor and manufacturer.

Texts similar to *Sales Management* are pioneer books pointing the way to better selling methods. Our educational problem is to get these books related to the student relative to his ability to grasp and scientifically apply the principles suggested.

When the field of distribution shall have succeeded in getting its principles of action analyzed in relation to the science of economics and the art of business, Professor Tosdal's book will be found to have been fundamental in making us realize the facts out of which principles and theories of modern sales management must necessarily evolve.

HERBERT W. HESS.

University of Pennsylvania.

POWELL, FRED WILBUR. *The Railroads of Mexico*. Pp. vii, 226. Boston: The Stratford Company, 1921.

The United States as a world power must perforce be interested in other nations. A keen interest in our neighbor to the south, however, long antedated our active participation in international affairs. American capital invested in the country south of the Rio Grande has served to direct attention to the Mexican government and its resources, especially during the last ten years, when changing governments have jeopardized both their national and foreign investments.

So much has been written on the Mexico of the last decade that it is difficult to find a phase of the subject not touched upon. Such a phase, however, Mr. Powell finds in railroads and their condition in the period following the presidency of Porfirio Diaz. The discussion is divided into three parts. The first shows the policies of Diaz by which he encouraged the building of railroads with foreign capital. At the close of his régime nearly a billion dollars of American capital had been invested in Mexico, about two-thirds of which was connected with railroads. American capitalists owned more than four-fifths of the entire investment in the 16,000 miles of Mexican lines. Part I shows, also, the conditions under which the lines were built, the difficulty of operation during the period 1910-1920, the service maintained and the claims of American investors for damages incurred during

this decade. The accounts consist of quotations from the annual reports of railroads, from presidential messages, legal documents and press reports.

Considering Mr. Powell's knowledge of railroads in general, and his first-hand acquaintance with those of Mexico, he could himself have given a better digested, and consequently more valuable, contribution than the one on pages 25-67, made up, as it is, largely of page after page of quoted statements. The concluding chapter of this part is a more constructive piece of work, pointing out the dependence of Mexican railways upon foreign capital and the necessity for political stability before the transportation problem can be solved. Part I is the most valuable section of the book, since it shows the present state of the lines after years of disturbing conditions.

The second part of the work is a history of the beginning of Mexican transportation and a detailed account in some ten chapters of the development of as many separate systems in the country. It forms a background for the more interesting revolutionary period of the last ten years, described in the earlier pages. These ten short chapters (averaging less than three pages each) show the character of railroad concessions in Mexico, the early participation of American interests, and the more recent tendency to free themselves from foreign control.

Mexican railroads have been closely connected with political affairs from the early days of Diaz to the Obregon government. Subsidies have been granted to practically every line in the country and government control of all lines has been the ultimate aim. The results, both political and economic, of this national policy the author presents in Part III. Railroads were built to afford transportation either to a port or to the American border, but they have not developed the country as was expected. High freight rates, excessive cost of construction and the general apathy of the people have kept Mexican lines from becoming great arteries of trade.

An excellent bibliography of twenty-four pages, covering books, periodicals and legal documents, is appended to the study.

HARRY T. COLLINGS.

University of Pennsylvania.

TURNER, JOHN ROSCOE. *The Ricardian Rent Theory*. Pp. xix, 221. Price, \$4.00. New York: The New York University Press, 1921.

Students of the past generation have paid scant heed to early American economists. The period before the Civil War, and even the post-war decade with its many monetary and tariff questions, were dominated by the influence of Ricardo and Mill rather than that of American writers. Professor Turner's book, *The Ricardian Rent Theory in Early American Economics*, endeavors to bring together the doctrines of these neglected writers and to show their contributions to early economic science.

This study was begun and completed eight years ago by Professor Turner, then a graduate student. It is presented as originally written, except for the omission in large part of a sixty page critique of the Ricardian rent doctrine, which is summarized in the first chapter of the book. The body of the study, comprising Chapters II to IX, discusses the views concerning rent, population and related subjects of some fifteen American economists of the period 1820-1880. Of those mentioned, Francis Wayland, Henry C. Carey, Francis Bowen and Arthur L. Perry are best known. This detailed study of each of the writers is followed by a résumé of the doctrines advocated by them, regarding wealth, value, capital, population and rent. Professor Fetter's introduction, dealing with the place of these men and their writings in economic literature, and the extensive bibliography at the end of the study, are worthy additions.

The treatment limits itself to a consideration of the rent doctrine of Ricardo with its necessary implications in the theory of population and the law of diminishing returns. Its chief value lies in a comprehensive treatment of the doctrines of these early writers. The author points out: (1) That they deserve a higher place than was accorded them in Professor Dunbar's article in the *North American Review* (1876); and (2) that they showed an independence of judgment, fostered by their new environment. Students of economic theory will welcome his study in a field previously treated only in scattered articles.

HARRY T. COLLINGS.

University of Pennsylvania.

BOWLEY, ARTHUR L. *Elements of Statistics* 4th Edition, revised. Pp. xi, 459. Price, 24s. London: P. S. King & Son Ltd., 1921.

The first edition of this text was published in 1901, while mathematical statistical analysis was still relatively in its infancy. Developments of method since that time have been great and applications of the more refined methods of analysis have been still greater. In the field of economics, in particular, the first application of the method of correlation to a time series, so far as I am aware, was published in 1901, viz., Hooker's *Study of the Marriage Rate and Trade*. The present revised edition of Bowley's text reflects these developments. In Part I, for instance, dealing with general elementary methods, the chapter on "Application of Averages to Tabulation" has been replaced by one on "Measurements of Dispersion and Skewness."

The more extended changes and additions, however, have been made in Part II, dealing with the applications of mathematics to statistics. This part has been completely rewritten and the treatment of theory is much more detailed and more extended. The author states that his treatment and his selection of examples have been chosen in particular with reference to problems arising in sociological and economic investigations; whereas, as is well known, modern statistical theory has developed largely in connection with biological investigations.

One significant change is noted in his development of theory. In the 1901 edition an effort was made to obtain the principal derivations, e.g. the law of error, by the use of algebra only; in the present edition he very frankly gives up this plan and uses calculus. The field of statistical theory has become so broadened in the last twenty years that a large portion of the literature cannot be read without a knowledge of calculus. Bowley mentions, significantly, in his preface that "no one should attempt to measure correlation till he has studied the theory closely and critically"—a viewpoint with which I am in complete sympathy.

It is a joy to note the expansion in this new edition—its extent and its direction.

The number of economists in the United States who are using the newer methods of statistical analysis and who have anything like an adequate mathematical training is still relatively small. More texts like Bowley and Yule, which bring together and summarize the widely scattered results of researches into method, will greatly assist the extension of this knowledge to larger and larger numbers.

BRUCE D. MUDGETT.

University of Minnesota.

TAUSSIG, FRANK WILLIAM. *Selected Readings in International Trade and Tariff Problems*. Pp. x, 566. New York: Ginn and Company, 1921.

These readings are divided into three parts. Part one gives an analysis of the economics of international trade by eminent economists such as Mill, Cairnes, Taussig and Bullock. Part two gives the argument of the classic economists and one or two modern economists for and against free trade. Part three contains the important public documents in the United States, such as excerpts from Hamilton's *Report on Manufactures*, Gallatin's *Free Trade Memorial* and Henry Clay's *Speech on American Industry*.

The average reader will find three articles in these readings of outstanding interest and importance at the present time. One is an article by Messrs. Bullock, Williams and Tucker on "The Balance of Trade in the United States." The second is an article by Adolf Wagner on "Agrarian State Versus Manufacturing State." The third is an article by Lujo Brentano on "The Terrors of the Predominantly Industrial State." These articles are particularly pertinent to the type of discussion we have in this country at this time.

The readings were selected primarily for use in a university class dealing with the tariff but they will prove equally valuable to those desiring to have at hand as a reference book the arguments of the leading economists for and against a high protective tariff. There are excerpts also from the works of Grover Cleveland, William McKinley and Thomas B. Reed.

BARNES, H. E. *The Social History of the Western World. An Outline Syllabus*. Pp. xii, 126. New York: D. Appleton & Co., 1921.

Prospective purchasers of this book should have their attention called to the fact that the book is merely a syllabus in bold outline form of the social history of the Western World. It is not a monograph nor is it a treatise. It is an arrangement of topics carefully chosen with readings indicated without critical comment.

MITCHELL, WESLEY C., et al. *The Income in the United States. Its Amount and Distribution, 1909-1919. Volume I*. New York: Harcourt, Brace & Company, 1921.

The authors of this volume and of Volume II, which is to appear in a few weeks, are connected with the National Bureau of Economic Research. This body was incorporated in 1920 "to conduct quantitative investigations into subjects that affect public welfare," and is already engaged in other studies.

This study of national income was greatly needed and will be of value not only to economists but to legislators and to business men. Separate investigators working independently and with different methods analyzed the national income. Mr. W. I. King, whose inquiry into the same subject several years ago has been our standard work on the subject, estimated the income by sources of production, the "income produced—the statistics of coal and metals mined, lumber cut, crops grown, raw materials transported or manufactured, and the like." Mr. Knauth estimated it by income received, using "income tax returns, reports on wages and salaries, investigations of the profits of farmers, and the like." The two results are analyzed in various ways and are then combined. The final estimate shows a total national income ranging from \$28,800,000,000 in 1909 to \$61,000,000,000 in 1918. Divided by the population of the United States, the per capita income ranges from \$319 in 1909 to \$586 in 1918. These figures, however, are deceptive because of the rise in prices, and are corrected by adjusting them to the price level of 1913.

The total national income thus estimated was \$30,100,000,000 in 1909 and \$38,800,000,000 in 1918, while the per capita income was \$333 in 1913 and \$372 in 1918. Small as these amounts are, they are larger than in any other country. Per capita income in the United States in 1914 was \$335; then followed Australia with \$263; the United Kingdom with \$243; Germany with \$146; Spain with \$54, and Japan with only \$29.

Estimates are also made by Mr. Macaulay of the actual distribution of this income among the various groups of workers and in

other ways; but a brief summary is apt to be misleading, so the reader is referred to the volume itself. There is no doubt that it will be widely read and will meet a very distinct need in this important field. We may add that it will dispel many false notions regarding war prosperity and other matters, although it should also be noted that the authors draw very few conclusions, leaving to the reader the application of their work.

ERNEST MINOR PATTERSON.

University of Pennsylvania.

Notes on Recent German Official Publication

SINCE January, 1921, the Statistical Bureau of the German Federal Government has been publishing a monthly periodical, entitled *Wirtschaft und Statistik* (Economy and Statistics), which should prove an indispensable addition to the various official publications of the present German government. It contains the most important statistical compilations made by the Federal Statistical Bureau, concerning domestic economic conditions, and presents them clearly and comprehensively as they are compiled from month to month. It also includes detailed comparative statistics pertaining to general financial and industrial conditions in various foreign countries, including the United States.

The reports deal with all phases of economic activity, such as production and consumption, trade and commerce, wholesale and retail prices, wages in various industries, money and finance, territorial problems and movement of population. Much of the statistical material is supplemented with detailed graphs and charts.

The periodical is to appear as a semi-monthly publication in the near future. As no public revenues are available for the purpose, the proceeds derived from the sale of the periodical must defray the expenses of publication. Consequently it is not available for free exchange.

A second important German government publication is the *Reichs-Erbeitsblatt*, (Federal Labor Journal) the official organ of the Department of Labor and the Federal Employment Bureau. It is pub-

lished semi-monthly, the new series of this journal dating from September, 1920.

The periodical contains an official and an unofficial division. The former includes the latest labor legislation, labor agreements, trade union regulations, building and housing laws and labor compensation acts. The latter includes a monthly survey of the labor market in Germany, statistical data on unemployment in various occupations and professions and cost of living statistics. This information is followed by a series of special articles written by government officials. These articles deal primarily with general labor problems. In addition, it contains a résumé of economic and unemployment conditions in foreign countries. Finally it includes a bibliography of all official reports and publications received by the Department of Labor during the month, together with a brief review of the most important of these publications.

Both of the above periodicals are published by Reimer Hobbing, Berlin, S. W. 61, Grossbeerenstrasse 17. The annual subscription price of the former in Germany is 36 marks, and of the latter 80 marks. These publications should prove a valuable addition to the reference library of anyone interested particularly in the general economic conditions in Central Europe.

A communication, recently received from the German Red Cross Committee in Frankfurt am Main, calls attention to a collection of *War Literature on Belgium*, 1914-1918, contained in the archives of this committee.

The collection includes all publications concerning Belgium during the World War, the detailed catalogue listing more than three thousand individual documents, books, periodicals, pamphlets, posters, placards and pictures. In its completeness this collection offers excellent source material for thorough-going study of the Belgian problem during the war, for it also contains an abundance of rare secret documents.

The table of contents of the catalogue lists the following items:

1. German official reports concerning Belgian problems (political, economic, etc.).

2. Books and pamphlets concerning German administration, as well as domestic and foreign policies in Belgium.

3. Historical background of the War and propaganda literature.

4. The Walloon movement in occupied Belgium. (Books and pamphlets.)

5. Questions concerning militarism and atrocities. (Books and pamphlets.)

6. Flemish movement in the occupied territory including problems dealing with public instruction and the University of Ghent as well as the problem of language and the Council of Flanders.

7. Belgian secret press. (Books and pamphlets.)

8. Belgian and Flemish literature.

9. Individual items, mounted, such as circulars, pictures, cards representing King Albert and his household, the deportation, circulars by Cardinal Mercier and concerning him, leaflets scattered by aviators over Belgium, documentary evidence concerning the Belgian secret press and pamphlets dealing with the Flemish movement.

10. Periodicals, including newspapers discussing the Walloon Movement in Belgium and beyond the border, as well as Walloon periodicals, complete file of German official correspondence pertaining to Belgium, extracts from the *Daily Press*, the official organ intended only for administrative purposes, periodicals of the Belgian secret press, including an almost complete original authentic copy of the well known secret newspaper *La Libre Belgique*, and lastly newspapers from occupied Belgium, both single copies and files.

11. Posters, four hundred photographs and two hundred originals.

12. Picture placards advertising the theatre, sport and art.

The entire collection is offered for sale, in whole or in part, by the Red Cross Committee of Frankfurt am Main, Goethestrasse 4, the stipulated price for the collection being one thousand dollars.

KARL SCHOLZ.

University of Pennsylvania.

Report of the Board of Directors of the American Academy of Political and Social Science for the Year Ending December 31, 1921

I. REVIEW OF THE ACADEMY'S ACTIVITIES

WITH each year the Academy carries forward towards more complete realization the great purposes for which it was founded. The existence of a national forum free from all political and partisan affiliations is of inestimable value in a democracy such as ours. Through the Academy's efforts, both in its publications and at its sessions, an ever increasing body of valuable material is made available to the American public. With each year the Academy is becoming an increasingly important factor in the enlightenment of public opinion, and the confidence which it inspires and enjoys in all sections of the country, is a source of great strength to our work and should also be reason for just pride to every member.

Throughout the year the Academy has enjoyed the devoted and unselfish efforts of an Editorial Council under the able leadership of Dr. Clyde L. King, and your Board desires to avail itself of this opportunity to acknowledge and express a deep sense of the obligation which we all owe to the members of this Board, and to those outside the Board who have undertaken the editorship of special volumes.

Your Board desires again to emphasize the importance of securing for the Academy a special endowment fund for the purpose of extending the research activities of the Academy. Those in charge of the Academy's activities should be placed in a position to engage the services of highly trained investigators to prepare special reports on the important economic, industrial and social problems confronting the country. We are in hopes that through the cooperation of the members of the Academy, it will be possible to secure such a fund for research work, and in addition, a fund sufficient to provide the Academy with the building so urgently needed to make its work more effective.

Your Board is of the opinion that the time has arrived when the Academy should undertake exhaustive investigations of the problems of national importance through the establishment of annual fellowships. As a first step in this direction, the Academy established a research fellowship for a period of one year for the purpose of securing a careful scientific study of the economic and social conditions in Haiti and the Dominican Republic. Dr. Carl Kelsey, Professor of Sociology at the University of Pennsylvania, was appointed to this fellowship and has just returned from a study of the conditions in these two republics. In the March issue of the *Annals* (1922) the results of this study will appear in a special monograph.

II. PUBLICATIONS

During the year 1921 the Academy published the following special volumes:

Present Day Immigration (with Special Reference to the Japanese) January.

The International Trade Situation (March).

Taxation and Public Expenditures (May).

The Place of the United States in a World Organization for the Maintenance of Peace (July).

The Revival of American Business (September).

Thirtieth Anniversary Index (September Supplement).

Child Welfare (November).

Austria Today (November Supplement).

III. MEETINGS

During the year that has just come to a close the Academy held the following sessions:

February 19, Some Present Day International Problems.

April 2, Shall Europe's War Debt to the United States be Cancelled?

May 13 and 14, The Twenty-Fifth An-

nual Meeting. The Place of the United States in a World Organization for the Maintenance of Peace.

November 5, Unemployment and Its Remedies.

December 3, Russia and Her Problems.

IV. MEMBERSHIP

During the year 1921 the Academy received 1,311 new members and 212 new subscriptions, or a total of 1,523. The Academy lost 48 members by death; 504, by resignation; and 263 delinquents were dropped. The present membership of the Academy is 6,533 members and 1,358 subscribers or a total of 7,891.

V. FINANCIAL CONDITION

The receipts and expenditures of the Academy for the fiscal year just ended are clearly set forth in the treasurer's report. The accounts were submitted to Messrs. E. P. Moxey and Company for audit, and copy of their statement is appended herewith. In order to lighten the expenses incident to the Annual Meeting a fund of \$1,525 was raised.

The Board desires to take this opportunity to express its gratitude to the contributors to this fund.

VI. CONCLUSION

In conclusion, your Board desires to say that it has endeavored to the best of its ability to carry out the important duties entrusted to it by the members of the Academy.

To make this work more effective, however, the Academy needs the more active interest and coöperation of members in every section of the country. There is no section which is not well represented by leaders of thought and action. Through

their efforts the influence of the Academy can be strengthened in every state of the Union, and your Board desires to take this opportunity to make a plea for a more active participation of the members in our work.

January 13th, 1922.

CHARLES J. RHOADS, ESQ., TREAS.,
American Academy of Political and Social Science, Philadelphia, Pa.

Dear Sir:—

We herewith report that we have audited the books and accounts of the American Academy of Political and Social Science for its fiscal year ended December 31, 1921.

We have prepared and submit herewith statement of receipts and disbursements during the above indicated period, together with statement of assets as at December 31, 1921.

The receipts from all sources were verified by a comparison of the entries for same appearing in the treasurer's cash book with the record of bank deposits and were found to be in accord herewith.

The disbursements, as shown by the cash book, were supported by proper vouchers. These vouchers were in the form of cancelled paid checks or receipts for moneys expended. These were examined by us and verified the correctness of the payments made.

The investment securities listed in the statement of assets were examined by us and were found to be correct and in accord with the books.

As the result of our audit and examination we certify that the statements submitted herewith are true and correct.

Yours respectfully,

EDWARD P. MOXEY & Co.,
Certified Public Accountants.

AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE

STATEMENT OF RECEIPTS AND DISBURSEMENTS FOR FISCAL YEAR

ENDED DECEMBER 31, 1921

Cash Deficit January 1, 1921.....		\$431.54
<i>Receipts</i>		
Members' Dues.....	\$36,860.23	
Life Memberships.....	150.00	
Special Donations.....	1,629.00	
Subscriptions.....	7,920.73	
Sales of Publications.....	4,350.87	
Interest on Investment and Bank Balances.....	6,006.09	
Sundries.....	173.08	
		57,090.00
<i>Disbursements</i>		
Office Expense*.....	\$9,402.14	
Philadelphia Meetings.....	4,681.25	
Publicity Expense.....	7,196.71	
Publication of The Annals.....	29,199.44	
Membership Records.....	3,671.68	
		\$54,965.39
Cash Balance December 31, 1921.....		\$1,693.07
<i>Assets</i>		
Investments (book value).....		\$117,376.27
Cash:		
In Academy Office.....	\$400.00	
In Treasurer's Hands, Girard Trust Company.....	1,293.07	
		1,693.07
		\$119,069.34

* Of this amount, \$1,500 was paid to Dr. Carl Kelsey for research work on the island of Haiti and Santo Domingo. In 1920, \$1.00 was advanced for this same purpose.

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THE ETHICS OF THE PROFESSIONS AND OF BUSINESS

The Annals

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Her Present Day Problems

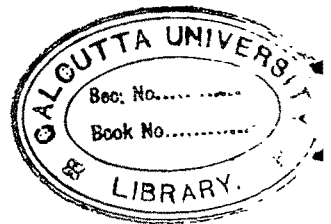
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FOREWORD

CODES of ethics are important agencies for social control. The complexities and the specializations of modern industrial life leave many individuals unable to judge whether or not a member of any profession has performed his services with due regard to the interests of all, as well as with due regard to the interests of his client. In all but the crassest and most obvious defaults in service standards the work of the physician must be judged by physicians and that of the lawyer, by lawyers. And so with each of the professions. The higher the skill, the greater the need for organized group effort toward maintaining a fine sense of obligations, not primarily to others in the same profession, but chiefly to the general well-being of all.

Hence it is that the ideal of all the professions is public service and not monetary gain. The very opportunities for anti-social conduct call forth organized effort to taboo unprofessional conduct. The constructive aim of each of the professions must therefore be the public good. The member of each of the professions has as his means of livelihood the heritage of the ages in his science. His earning power and his opportunity for immortality of influence depend upon the careful work of countless predecessors. The training necessary to a mastery of a profession gives the opportunity, but not the reason, for enforcing high standards of conduct throughout the profession.

Until very recently business was looked upon solely as a means to a selfish end. The ethics of business were those of the barter-market. The buyer could beware. The sole test of the seller was what he could get away with. But modern transportation systems have changed all this. Oranges grown in

California must now be marketed in Philadelphia and automobiles are now made in Detroit to be sold in the Orient. The manufacturer sells to distant unknown customers through advertising. Even contracts to buy and to sell, in these days of the telephone, are largely by word of mouth. Selling prices must now be announced before goods are produced. Business hangs more and more upon good faith. That old adage, "A man's word is as good as his bond," acquires new meaning as a business asset.

The necessity of good faith in business was brought forcibly to the attention of the business world by the unprecedented cancellation of contracts in the recent period of rapidly rising and falling prices. Business men learned then how little money it takes to tempt a man to break his word. But modern business cannot go on where there is lack of confidence. The sudden stagnation of business in 1920 was due more than men are wont to believe to the breakdown of moral stamina. Business is today far flung in its relations and complex in its ramifications. The structure falls when good faith fails.

In the past few months, many business men have come to have a solemn sense of personal obligation to restore and maintain faith in the business world. For ethics is the basis for creative industry. The National Association of Credit Men has adopted a formal code of ethics. (See page 208.) The Associated Advertising Clubs of the World has started a "Truth in Advertising" Movement and has formed a Vigilance Committee to enforce the truthful presentation of business facts in advertising. (See page 214.) The "Commercial Standards Council" was federated out of many large busi-

ness associations to suppress bribery and to secure better ethical standards in business. (See page 221.) The Rotarians, under the poignant leadership of Mr. Guy Gundaker, have set for themselves the gigantic yet inspiring task of creating a code of ethics in every craft and business group throughout the country. (See page 229.) And even the editors of newspapers have assumed responsibility for a public profession as to their standards of conduct. (See pp. 170 to 179.)

As business groups and crafts struggle to put into words the ideals that shall guide their members when meeting the business temptations peculiar to each craft or industry, they, too, must turn away from mere negotiations to the ideal. And this ideal, as with the professions, must be the public good. These business groups, however, will not find at hand the same means for enforcing high standards of conduct that the professions have. There will usually be no selective training for the work performed, though the demand for such training is increasing. (See page 205.) But, on the other hand, business groups will have the powerful controlling agency of the organized market.

The business world is now so complex that reliance must be its first watchword. And this can never be until the ideal of service controls the crafty impulse for profits. Confidence can never be established merely by preventing the illegal. Laws must by their very nature be the expression of accepted standards of conduct. Unless those standards are generally accepted, laws can be of no avail. For laws enforce the obedience of minorities only. The professions of law and of medicine will never entice the public confidence if the members of those professions organize solely to punish the lawbreaker. The physician, to be worthy of his profession, must do more than refuse to do the

illegal act. He must do his share to prevent disease, even though by so doing he shall decrease the need for physicians. The unethical and the illegal are not synonymous. The ethical points to the goal. The illegal leads only to the jail. The unethical is the path in the mud. The ethical is the paved road to public service. Ethics like all paved roads are the result of conscious, persistent, human effort.

One danger to the general good lurks in group codes, and that is that the code may degenerate into the creed of a "make-work" union. We have heard much of late about wage earners making work for each other and not pushing their own jobs to a finish. We have been prone to forget that the same disease has long been chronic among some members of the legal profession. We have scolded the wage earners for standing together when many physicians have long practised all the arts of mutual protection. Unless the ancient self-seeking by individuals is to become, under the modern necessity for organization, mere self-seeking by groups, codes of ethics must keep clearly in mind at all times the good of all. If chambers of commerce may dominate the legislature of Pennsylvania, why may not the farmers dominate the national Congress? If lawyers are to make work for each other, how are we to say that laborers shall not soldier on their jobs? Self-determination by groups there should be; but self-determination in the light of the good of all.

One aspect of group consciousness of late is the belief of each of the professions that it alone should inherit the earth. Engineers have recently claimed that engineering is the one all-inclusive industrial profession. The farmers have long known that the farm is the beginning and the end of all industry. Ministers have solemnly assured their

hearers that the ministry is the highest of all callings while the contempt of lawyers for the skill or knowledge of others has been chronic. And who has not been told that labor produces all goods and who else ever can be "practical" but the business man? In so far as this group-smugness is born of a conviction of the dignity and social value of one's calling, such a feeling will have social value. But in so far as it is indicative of group-selfishness, we must find an antidote for it.

And that antidote has been suggested in the Interprofessional Conference. Such a Conference was held in Detroit in 1919. The purpose of that Conference (see page 13) was "to liberate the professions from the domination of selfish interest, both within and without the professions, to devise ways and means of better utilizing the professional heritage and skill for the benefit of society and to create relations between the professions looking toward

that end." The Congress of the Building Industry, formed in this country, is fraught with such possibilities. Mr. Hoover's Unemployment Conference created in the minds of its most selfish members an impulse to do one's duty toward others. Such congresses where one may learn of the needs and points of view of others will tend to transmute group-selfishness into group-ideals of public service. The public weal is a joint product of the loyal services of the skill, knowledge and creative ability of all. Useless one group or profession without the other.

Codes of ethics are the means by which groups keep their members socially victorious over self-aggrandizement. To survive, such codes must achieve a unity not of negation but of spirit—a spirit that consecrates life to the long-time interests of all through one's efforts while making a living.

CLYDE L. KING,
Editor.

ACKNOWLEDGMENTS WITH A DEDICATION

THIS volume of the "Annals" owes its value to the service ideal of each member of the committee whose names are given on the opposite page. The content and point of view of this volume were both new. Here and there individuals within the professions had given thought to the place and value of a code, each for his own profession, but few even of these had thought of the service value of the standards of conduct reflected in those codes to other professions or to business generally. The volume required consultation and repeated searches for contributors and topics and codes on the part of all the members of this committee. Many not only helped with suggestions and advice but also undertook the preparation of articles themselves. To all of these the officers of the Academy render grateful acknowledgments.

The services of this committee are not to end with the publication of this volume. The members of the committee have dedicated themselves to the cause of the betterment of ethical standards among the professions and in business. To this end they will keep themselves in touch with and aid when possible the attempts of all organizations everywhere to attain and maintain high standards of social conduct. With the active support of the many hundreds of loyal and active Academy members everywhere, such services are sure to bring ample returns. For the stability and worthwhileness of our social and industrial life depend upon the standards of conduct of men and women when engaged in making a living.

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OF THE
AMERICAN ACADEMY OF POLITICAL AND SOCIAL SCIENCE
ON THE
ETHICS OF THE PROFESSIONS AND OF BUSINESS

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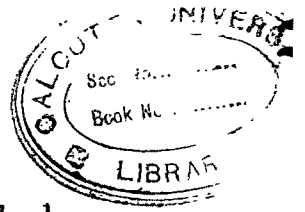
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The Significance of the Professional Ideal

Professional Ethics and the Public Interest

By ROBERT D. KOHN

New York City, Fellow of the American Institute of Architects

OF the many socially significant effects of the War there are some which are of particular interest to the professions. One of these is the new impulse to appraise the motives that have inspired various professional ideals and more particularly to test out those ideals with the touchstone of the public interest. That test naturally results from any consideration of the almost universal desire for service, the sacrifice of one's private interests to the common good that was prevalent throughout the War; perhaps, indeed, more prevalent among those who could not make their sacrifice by carrying a gun. For once, the money-making motive was laid aside; thousands, nay, millions of people gladly accepted the service motive as quite adequate to energize every human activity. At one blow, the professional classes were recruited a million-fold and a thousand occupations that had never been considered as capable of becoming professional unconsciously became professional. The gain motive was subservient to the motive of perfecting the quality of service.

With the cessation of hostilities most of these great impulses faded away almost over-night. Their significance had been recognized by the few; yet here and there among the recognized professions there were stirrings of a new life, and at least two marked instances of effort to retain the worthwhile elements resulting from war-time coöperation. One of these was the admirable move of the engineering societies to continue through engineer-

ing councils certain forms of service to the public that had been most highly developed as a result of the war-time demand for their particular technique. The second was the effort of the architects to continue to lead the moves for the betterment of housing, for city planning, etc., in which they had taken a leading part during the War. In both of these professions there were also striking efforts to analyze the relations of the profession to the public. The Post-War Committee of the American Institute of Architects proposed, among other things, a very thorough investigation of the extent to which the architectural profession of the United States was rendering the quality and quantity of service which all of the public had the right to demand. This particular survey was very much along the line of the investigation of the professions in England made for the Fabian Society by Sidney and Beatrice Webb some years before.

INTER-PROFESSIONAL COÖPERATION

Perhaps the most notable ethical outcome of the service rendered by the professions during the War was their realization of the need for coöperation between different professions, between the branches of the same profession and between professions and the technical industry allied to them. The implications of this

tendency towards a more democratic inclusion of the larger number of professional men in the various professional societies, and by the formation of such bodies as the "Congress of the Building and Construction Industry," in which it is sought to bring together in all of the larger communities, not only architects and engineers, but all of those that are functionally connected with building, including contractors, sub-contractors, material manufacturers and dealers, skilled and unskilled labor, building loan and real estate men. There has been, then, a tendency on the part of the professional men to realize that they must become coöperators with the other elements of the total function of which they are a part, rather than one directing element. One item in the final report of the Post-War Committee on Architectural Practice said in effect, "The architect by himself cannot cure the deficiencies in his service, or the problems with which his profession is faced; he can only improve his service and make it more adequate to the public need as he realizes his functional relationship to the other parts of the building industry, and through co-operation makes these other elements realize each its distinctive functional responsibility."

In other fields, apparently, there have been similar drawings together of technician with worker and of technician with management, as in the experiments of the English Building Guilds. Whatever may be their measure of success or failure, these, like the Congress of the Building Industry in this country, starts towards democracy. The professions for the

appears most important that the professional ideal be now clarified and democratized. Everywhere we see signs that the motive that has inspired industry and commerce is being questioned; a realization is growing that the old motives are inadequate. People say, "If it was possible to conduct the major operations of the great World War without the prime impulse of money getting, is it not possible gradually to increase the number of normal activities inspired by other than money getting?" The commonplace reply is that the necessary patriotic enthusiasm would be lacking. But the professions in the finest sense do actually get their inspiration from a motive other than the money-getting motive. Why, then, is the professional impulse limited in its scope? The earning of a livelihood is naturally the result of competent practice of a profession. But that is not its prime purpose in the best sense. The prime purpose is the perfection of a service, and the most important reward of that perfection is, not the extent to which it is paid, but the extent to which the service is appreciated by those best competent to judge it, by those who practise the same profession.

The whole argument with regard to the validity of (and the extensibility of) the professional motive is remarkably demonstrated by R. H. Tawney of Oxford in his admirable *Acquisitive Society*.¹ He says in part:

A profession may be defined most simply as a trade which is organized, incompletely, no doubt, but genuinely for the performance of function. It is not simply a collection of individuals who get a living for themselves by the same kind of work. Nor is it merely a group which is organized exclusively for the economic protection of its

¹ *The Acquisitive Society*, by R. H. Tawney, Fellow of Balliol College, Oxford. Harcourt Brace & Howe, 1920.

members, though that is normally among its purposes. It is a body of men who carry on their work in accordance with rules designed to enforce certain standards both for the better protection of its members and for the better service of the public. The standards which it maintains may be high or low; all professions have some rules which protect the interests of the community and others which are an imposition on it. Its essence is that it assumes certain responsibilities for the competence of its members or the quality of its wares, and that it deliberately prohibits certain kinds of conduct on the ground that, though they may be profitable to the individual, they are calculated to bring into disrepute the organization to which he belongs. While some of its rules are trade union regulations designed primarily to prevent the economic standards of the profession being lowered by unscrupulous competition, others have as their main object to secure that no member of the profession shall have any but a purely professional interest in his work, by excluding the incentive of speculative profit.

The conception implied in the words "unprofessional conduct" is, therefore, the exact opposite of the theory and practice which assume that the service of the public is best secured by the unrestricted pursuit on the part of rival traders of their pecuniary self-interest, within such limits as the law allows. . . . The rules themselves may sometimes appear to the layman arbitrary and ill-conceived. But their object is clear. It is to impose on the profession itself the obligation of maintaining the quality of the service, and to prevent its common purpose being frustrated through the undue influence of the motive of pecuniary gain upon the necessities or cupidity of the individual.

* * *

The difference between industry as it exists to-day and a profession is, then, simple and unmistakable. The essence of the former is that its only criterion is the financial return which it offers to its shareholders. The essence of the latter is that, though men enter it for the sake of livelihood, the measure of their success is the service which they perform, not the gains which

they amass. They may, as in the case of a successful doctor, grow rich; but the meaning of their profession, both for themselves and for the public, is not that they make money but that they make health, or safety, or knowledge, or good law. They depend on it for their income, but they do not consider that any conduct which increases their income is on that account good. And while a boot-manufacturer who retires with half a million is counted to have achieved success, whether the boots which he made were of leather or brown paper, a civil servant who did the same would be impeached.

* * *

The idea that there is some mysterious difference between building schools and teaching in them when built, between providing food and providing health, which makes it at once inevitable and laudable that the former should be carried on with a single eye to pecuniary gain, while the latter are conducted by professional men who expect to be paid for service but who neither watch for windfalls nor raise their fees merely because there are more sick to be cured, more children to be taught, is an illusion only less astonishing than that the leaders of industry should welcome the insult as an honor and wear their humiliation as a kind of halo. The work of making boots or building a house is in itself no more degrading than that of curing the sick or teaching the ignorant. It is as necessary and therefore as honorable. It should be at least equally bound by rules which have as their object to maintain the standards of professional service. It should be at least equally free from the vulgar subordination of moral standards to financial interests.

If any of these ideas are to be brought into effect in the interrelations of society; if the professional ideal is to be to any extent carried over into other fields, it behooves the professional man to perfect his ideals. It would be absurd to ignore the fact that these ideals are far from perfection; that professional standards are uncertain and purposes vague. The principles of professional practice have only too

frequently tended to protect certain monopolies or to advance a particular profession on the gainful side. Professional societies in that respect have gone through and are still going through various stages of liberation from selfishness. The first stage of organization was to protect the members against unfair competition and to improve the profession in public consideration. Then followed the stage in which the relationships between members of the same profession were considered as most important; certain courtesies were to be extended from one member of the profession to another. Then they were bound together to prevent outsiders from interfering or to protect the profession against unjust laws. Next followed the movement to improve admission to practice; educational qualifications were established, and the schools were looked after. Finally there was attained the stage in which permanent importance is given to the relationship of the profession to the service which it may be expected to render—that is to say the stage where public needs are placed paramount to professional rights or even desires. The various professions are today in different degrees within one or more of these several stages of development.

This last and manifestly most socially valuable stage of the development of professional organization can best be advanced if the professions come together and test out the validity of their several standards in the light of the criticism of those who practise some other profession. The weakness of professional influence in public life comes about through the fact that each profession in the past when trying to affect public affairs has spoken for itself alone, and hence its opinions were always suspected of being influenced by self-interest. Nothing is more im-

portant in our democracy than that the best qualified to speak on any particular topic shall be able to bring their opinions to bear on public affairs. Nothing is more evident than that today the inexperienced is listened to more frequently, perhaps more trustfully than the expert, on questions of public policy. Even when the expert speaks officially as representative of his particular professional body, he is weak because of the suspicion as to his motives. The right technique, that is to say the technique best qualified, can be brought to bear upon our government affairs only when the professions as professions join together, testing out every recommendation in a group conference so as to be able to present their views to the public with all the force of a consolidated inter-professional opinion. And this method is right, too, because no question of public health or engineering or law is merely a question of one technique. The housing problem, for instance, includes problems of engineering, architecture, finance, economics, city planning, public health, social work, law, and many other professions.

PROFESSIONAL ETHICS AND PUBLIC INTEREST

The public interest, then, in the growth and development of the professional ideal is manifold. In the first place, the professional ideal seems to hold out a new hope for a worthwhile motive in many fields which today seem to feel the failure of the money-getting motive. The professional attitude has increasingly proved its validity, and particularly during the War, as an adequate motive force, despite its many failures. It can, however, only be carried over into other fields of human activity from the present-time recognized professions if it is purified and perfected as a result of the efforts of professional

bodies, coöperating in a study of their ethical standards, methods of training and adequacy of the service to the entire public need, irrespective of class. In the second place, the public interest is great by reason of the fact that the professional ideal alone seems to offer a way out to an inexpertly governed democracy. Through coöperation between professions the expert can be brought into government through the more powerful public opinion thereby created. In the third place, the professions alone can lay the groundwork of a new society based on the idea of the distinctive functional contribution of each to the common good. They must develop that basic idea into a clearly defined scheme by enlarging their field of coöperation and democratic understanding between professional groups and then through points of contact with every branch of the particular

industries to which each is related. They alone can begin the process of relating people to each other in terms of their vocations and thus lay the foundation of that new society based on the functional contribution of each to the whole, of which more than thirty years ago Charles Benoist saw the possibilities in *La Crise de l'Etat Moderne*.

Far off as it may be to the realization of any such dream, it is in its beginnings at least in the new impulses noticeable in our professional societies as a result of the War, and will be advanced by such coöperation between the professions as will perfect their standards, justify their ideals with the public interests, and lay the foundations of a broader more democratic inclusiveness, based on the prime importance of the functional relationship between individuals, groups, states and nations.

The Social Significance of Professional Ethics

By R. M. MAC IVER

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THE spirit and method of the craft banished from industry finds a more permanent home in the professions. Here still prevail the long apprenticeship, the distinctive training, the small-scale unit of employment and the intrinsic—as distinct from the economic—interest alike in the process and the product of the work. The sweep of economic evolution seems at first sight to have passed the professions by. The doctor, the lawyer, the architect, the minister of religion, remain individual practitioners, or at most enter into partnerships of two or three members. Specialization takes place, but in a different way, for the specialist in the professions does not yield his autonomy. He offers his

specialism directly to the public, and only indirectly to his profession. But this very autonomy is the condition under which the social process brings about another and no less significant integration. The limited “corporations” of the business world being thus ruled out, the whole profession assumes something of the aspect of a corporation. It supplements the advantage or the necessity of the small-scale, often the one-man, unit by concerted action to remove its “natural” disadvantage, that free play of uncontrolled individualism which undermines all essential standards. It achieves an integration not of form but of spirit. Of this spirit nothing is more significant than the ethical code which it creates.

DISTINCTION BETWEEN BUSINESS AND PROFESSIONAL STANDARDS

There is in this respect a marked contrast between the world of business and that of the professions. It cannot be said that business has yet attained a specific code of ethics, resting on considerations broader than the sense of self-interest and supplementing the minimal requirements of the law. Such a code may be in the making, but it has not yet established itself, and there are formidable difficulties to be overcome. When we speak of business ethics, we generally mean the principles of fair play and honorable dealing which men *should* observe in business. Sharp dealing, "unfair" competition, the exaction of the pound of flesh, may be reprobated and by the decent majority condemned, but behind such an attitude there is no definite code which business men reinforce by their collective sense of its necessity and by their deliberate adoption of it as expressly binding upon themselves. There is no general brotherhood of business men from which the offender against these sentiments, who does not at the same time overtly offend against the law of the land, is extruded as unworthy of an honorable calling. There is no effective criticism which sets up a broader standard of judgment than mere success.

If we inquire why this distinction should hold between business and professional standards the social significance of the latter is set in a clearer light. It is not that business lacks, unlike medicine or law for example, those special conditions which call for a code of its own. Take, on the one hand, the matter of competitive methods. It is a vital concern of business, leading to numerous agreements of all sorts, but these are mere *ad hoc* agreements of a particular nature, not as yet

deductions from a fully established principle which business, as a self-conscious whole, deliberately and universally accepts. Take, on the other hand, such a problem as that of the duty of the employer to his work-people. Is not this a subject most apt for the introduction of a special code defining the sense of responsibility involved in that relationship? But where is such a code to be found?

THE IDEAL OF SERVICE

Something more is evidently needed than a common technique and a common occupation in order that an ethical code shall result. We might apply here the significant and much misunderstood comparison which Rousseau drew between the "will of all" and the "general will." In business we have as yet only the "will of all," the activity of business men, each in pursuit of his own success, not overridden, though doubtless tempered by the "general will," the activity which seeks first the common interest. The latter can be realized only when the ideal of service controls the ideal of profits. We do not mean that business men are in fact selfish while professional men are altruistic. We mean simply that the *ideal of the unity of service* which business renders is not yet explicitly recognized and proclaimed by itself. It is otherwise with the professions. They assume an obligation and an oath of service. "A profession," says the ethical code of the American Medical Association, "has for its prime object the service it can render to humanity; reward or financial gain should be a subordinate consideration," and again it proclaims that the principles laid down for the guidance of the profession "are primarily for the good of the public." Similar statements are contained in the codes of the other distinctively organized profes-

sions. "The profession," says the proposed code of the Canadian legal profession, "is a branch of the administration of justice and not a mere money-getting occupation." Such professions as teaching, the ministry, the civil service and social work by their very nature imply like conceptions of responsibility. They imply that while the profession is of necessity a means of livelihood or of financial reward, the devoted service which it inspires is motivated by other considerations.

In business there is one particular difficulty retarding any like development of unity and responsibility. It may safely be said that so long as within the industrial world the cleavage of interest between capital and labor, employer and employe, retains its present character, business cannot assume the aspect of a profession. This internal strife reveals a fundamental conflict of acquisitive interests within the business world and not only stresses that interest in both parties to the struggle but makes it impossible for the intrinsic "professional" interest to prevail. The professions are in general saved from that confusion. Within the profession there is not, as a rule, the situation where one group habitually employs for gain another group whose function, economic interest and social position are entirely distinct from its own. The professions have thus been better able to adjust the particular interests of their members to their common interest and so to attain a clearer sense of their relationship to the whole community.

Once that position is attained the problem of occupational conduct takes a new form. It was stated clearly long enough ago by Plato in the *Republic*. Each "art," he pointed out, has a special good or service. "Medicine, for example, gives us health; navigation, safety at sea, and so on. . . . Medicine is not the art—or profes-

sion—of receiving pay because a man takes fees while he is engaged in healing. . . . The pay is not derived by the several 'artists' from their respective 'arts.' But the truth is, that while the 'art' of medicine gives health, and the 'art' of the builder builds a house, another 'art' attends them which is the 'art' of pay." The ethical problem of the profession, then, is to reconcile the two "arts," or, more generally, to fulfil as completely as possible the primary service for which it stands while securing the legitimate economic interest of its members. It is the attempt to effect this reconciliation, to find the due place of the intrinsic and of the extrinsic interest, which gives a profound social significance to professional codes of ethics.

THE GROUP CODE DISTINCTIVE, NOT THE STANDARD

The demarcation and integration of the profession is a necessary preliminary to the establishment of the code. Each profession becomes a functional group in a society whose tendency is to organize itself less and less in terms of territory or race or hereditary status, and more and more in terms of function. Each profession thus acquires its distinctive code. It is important to observe that what is distinctive is the code rather than the standard. The different codes of racial or national groups reveal variant ethical standards, but the different codes of professional groups represent rather the deliberate application of a generally accepted social standard to particular spheres of conduct. Medical ethics do not necessarily differ in quality or level from engineering ethics, nor the ethics of law or of statesmanship from those of architecture. The false old notion that there was, for that most ancient, and still most imperfectly defined, profession of statesmanship, a peculiar

code which liberated it from the ordinary ethical standards, has died very hard. In truth there could be no conflict of ethics and politics, for politics could justify itself only by applying to its own peculiar situations and needs the principles which belong equally to every sphere of life.

Ethics cannot be summed up into a series of inviolate rules or commandments which can be applied everywhere and always without regard of circumstances, thought of consequences, or comprehension of the ends to be attained. What is universal is the good in view, and ethical rules are but the generally approved ways of preserving it. The rules may clash with one another, and then the only way out is to look for guidance to the ideal. The physician may have to deceive his patient in order to save his life. The lawyer, the priest and the physician may have to observe secrecy and keep confidences under conditions where it might be the layman's duty to divulge the same, for the conception of the social welfare which should induce the one to speak out may equally in the peculiar professional relationship compel the other to silence. Every profession has its own problems of conduct, in the interpretation within its own province of the common principles of ethical conduct. The medical man to whom is entrusted, under conditions which usually admit of no appeal save to his own conscience, the safeguarding of the health of his patient, with due consideration for the health of the whole community, has to depend upon a special code applicable to that situation. So with the legal profession which, for example, has to provide professional service for all litigants, irrespective of the popularity or unpopularity of the cause. So with the architect, who has to determine his responsibility alike to the client, to the

contractor, to the workmen, to the "quantity surveyor," and to the community. So with the university professor, who has to uphold the necessity of academic freedom against the pressure of prejudice and the domination of controlling interests which care less for truth than for their own success. So with the journalist, in his peculiarly difficult situation as the servant of a propagandist press. So with the engineer, the surveyor, the accountant, or the technician generally, who has to maintain standards of service and of efficiency against the bias of profit-making. So with the manager, the secretary, or the officer of a corporation—for here business assumes most nearly the aspect of a profession—who has to reconcile the trust imposed on him by his employers with the duty he owes to himself and to those whose service he in turn controls. Out of such situations develop the written and the unwritten codes of professional ethics.

We need not assume that these codes originate from altruistic motives, nor yet condemn them because they protect the interest of the profession itself as well as the various interests which it serves. To do so would be to misunderstand the nature of any code. An ethical code is something more than the prescription of the duty of an individual towards others; in that very act it prescribes their duty towards him and makes his welfare too its aim, refuting the false disassociation of the individual and the social. But the general ethical code prescribes simply the duties of the members of a community towards one another. What gives the professional code its peculiar significance is that it prescribes also the duties of the members of a whole group towards those outside the group. It is just here that in the past ethical theory and practice alike have shown

the greatest weakness. The group code has narrowed the sense of responsibility by refusing to admit the application of its principles beyond the group. Thereby it has weakened its own logic and its sanction, most notably in the case of national groups, which have refused to apply or even to relate their internal codes to the international world. On the other hand the attempt of professional groups to coördinate their responsibilities, relating at once the individual to the group and the group itself to the wider community, marks thus an important advance.

The problem of professional ethics, viewed as the task of coördinating responsibilities, of finding, as it were, a common centre for the various circles of interest, wider and narrower, is full of difficulty and far from being completely solved. The magnitude and the social significance of this task appear if we analyze on the one hand the character of the professional interest, and on the other the relation of that interest to the general welfare.

THE CHARACTER OF THE PROFESSIONAL INTEREST

The professional interest combines a number of elements. It includes what we may term the extrinsic interest, that devoted to the economic and social status, the reputation, authority, success and emoluments attaching to the profession as a body. It includes also the technical interest directed to the art and craft of the profession, to the maintenance and improvement of its standards of efficiency, to the quest for new and better methods and processes and to the definition and promotion of the training considered requisite for the practice of the profession. It may also include a third interest which can be classed as cultural. To illustrate, in the profession of teaching the technical interest in the

system of imparting knowledge is one thing, and the cultural interest in the knowledge imparted quite another. Even more obvious is the case of the minister of religion, whose technique of ministration is as a rule very simple and whose main interest lies in the significance of the doctrine. The distinction is clear also in the spheres of the sciences and of the fine arts where the interest in truth or beauty may be discerned from the interest in the modes of investigation or of expression. In other professions it may be harder to identify the cultural as distinct from the technical interest, but if we interpret the term culture widely enough to include, for example, such objects as health and the beauty of workmanship, it may be maintained that the cultural interest belongs to every profession and is in fact one of the criteria by which to determine whether or not a given occupation is to be classed as a profession.

Now these three strands of interest are usually interwoven in the general professional interest, but sometimes they are separated and subject to the pull of opposite forces. Thus while the technical and economic interest usually go together and while, for example, the maintenance of standards usually works towards the economic advantage of the profession, these may be unfortunately disjoined. Better technique may at points be antagonistic to professional gain. The lawyer may, to take one instance, lose a source of profits by the introduction of a simpler and more efficient system of conveyancing. The architect, working on a percentage basis, may find his pecuniary advantage at variance with his professional duty to secure the best service for the least cost. Likewise, opposition may arise between the economic and the cultural interest. The teacher and the preacher

may suffer loss from a wholehearted devotion to the spirit of truth as they conceive it. The artist, the playwright, the author, may have to choose between the ideals of their art and the more lucrative devices of popularity. Finally, the technical and the cultural interest may work apart. Routine methods and processes may dominate the professional mind to the obscuration of the ends which they should serve. A notable statement of this opposition is given in the valuable investigation into professional organization in England which was published in two supplements of the *New Statesman* (April 21 and 28, 1917). The investigation points to "the undisguised contempt in which both solicitors and barristers, notably those who have attained success in their profession and control its organization, hold, and have always held, not only all scholarship or academic learning of a professional kind, but also any theoretic or philosophical or scientific treatment of law."

Here, therefore, in the structure of the general professional interest we find a rich mine of ethical problems, still for the most part unworked but into which the growing ethical codes of the professions are commencing to delve. A still greater wealth of the material for ethical reflection is revealed when we turn next to analyze the relation of the professional interest as a whole to that of the community.

RELATION OF PROFESSIONAL INTEREST TO GENERAL WELFARE

Every organized profession avows itself to be an association existing primarily to fulfil a definite service within the community. Some codes distinguish elaborately between the various types of obligation incumbent on the members of the profession. The lawyer, for example, is declared to have

specific duties to his client, to the public, to the court or to the law, to his professional brethren and to himself. It would occupy too much space to consider the interactions, harmonies, and potential conflicts of such various duties. Perhaps the least satisfactory reconciliation is that relating the interest of the client to the interest of the public, not merely in the consideration of the particular cases as they arise but still more in the adaptation of the service to the needs of the public as a whole as distinct from those of the individual clients. Thus the medical profession has incurred to many minds a serious liability, in spite of the devotion of its service to actual patients, by its failure for so long to apply the preventive side of medicine, in particular to suggest ways and means for the prevention of the needless loss of life and health and happiness caused by the general medical ignorance and helplessness of the poor.

In addition it must suffice to show that the conception of communal service is liable to be obscured alike by the general and by the specific bias of the profession. It is to the general bias that we should attribute such attempts to maintain a vested interest as may be found in the undue restriction of entrants to the profession—undue when determined by such professionally irrelevant considerations as high fees and expensive licenses; in the resistance to specialization, whether of tasks or of men, the former corresponding to the resistance to "dilution" in the trade union field; in the insistence on a too narrow orthodoxy, which would debar from professional practice men trained in a different school; in the unnecessary multiplication of tasks, of which a flagrant example is the English severance of barrister and solicitor. Another aspect of the general bias is found in the shuffling of

responsibility under the cloak of the code. This is most marked in the public services, particularly the civil service and the army and navy—and incidentally it may be noted that the problem of professional ethics is aggravated when the profession as a whole is in the employ of the state. "An official," says M. Faguet in one of his ruthless criticisms of officialdom (*The Dread of Responsibility*), "is a man whose first and almost only duty is to have no will of his own."

THE DANGER OF A SPECIFIC GROUP BIAS

This last case brings us near to what we have called the specific bias of the profession. Each profession has a limited field, a special environment, a group psychology. Each profession tends to leave its distinctive stamp upon a man, so that it is easier in general to distinguish, say the doctor and the priest, the teacher and the judge, the writer and the man of science than it is to discern, outside their work, the electrician from the railwayman or the plumber from the machinist. The group environment creates a group bias. The man of law develops his respect for property at the risk of his respect for personal rights. The teacher is apt to make his teaching an over-narrow discipline. The priest is apt to underestimate the costs of the maintenance of sanctity. The diplomat may overvalue good form and neglect the penalty of exclusiveness. The civil servant may make a fetish of the principle of seniority, and the sol-

dier may interpret morality as mere *esprit de corps*.

All this, however, is merely to say that group ethics will not by themselves suffice for the guidance of the group, unless they are always related to the ethical standards of the whole community. This fact has a bearing on the question of the limits of professional self-government, though we cannot discuss that here. Professional group ethics are, as a matter of fact, never isolated, and thus they are saved from the narrowness and egotism characteristic of racial group ethics. Their dangers are far more easily controlled, and their services to society, the motive underlying all codes, vastly outweigh what risks they bring. They provide a support for ethical conduct less diffused than that inspired by nationality, less exclusive than that derived from the sense of class, and less instinctive than that begotten of the family. They witness as they grow to the differentiation of community. Their growth is part of the movement by which the fulfilment of function is substituted as a social force for the tradition of birth or race, by which the activity of service supersedes the passivity of station. For all their present imperfections these codes breathe the inspiration of service instead of the inspiration of mere myth or memory. As traditional and authoritative ethics weaken in the social process, the ethics formulated in the light of function bring to the general standard of the community a continuous and creative reinforcement.

The Interrelations of the Professions

By CHARLES HARRIS WHITAKER

Editor, the Journal of the American Institute of Architects

TO begin any discussion of the professional relation there must first be an agreement as to the meaning of professional. What is a profession? Who knows? That it is no longer what it was, we feel quite sure. Whatever group of vocations we admitted to the professional classification—if we should elect to proceed in that manner—our verdict would be that one and all of them had been tainted by that unpleasant infection commonly called “commercialism.” But this verdict instantly discovers to us two things. First, that commercialism stands generally as the antithesis of professionalism; and, second—if we have the courage to look things squarely in the face—that the epithet of commercialism, so contemptuously hurled, is no more than a quiet parry by which we prefer to condemn in another those things which we recognize, resent, and yet are unwilling to admit in ourselves. The psychologists understand this mental process very well. Governments and despots know how to capitalize it for ends of their own, and an ancient symbol likens the phenomenon to an obscuring beam in the organs of physical vision.

“COMMERCIALISM”

Now commercialism has to do with facts pecuniary. It moves and has its being wholly in the realm of measurements expressed in terms of money or a credit equivalent. When commercialism wishes to use that store of knowledge or skill which has been built up by research and which is commonly held in the keeping of the professions, it has to make terms of a pecuniary nature. These terms are either a payment in cash, or in the form of favors

bestowed or obstacles removed. No man can today practise a profession without making terms with business or commerce, or without subjecting himself to the risk of financial ruin, should his conscience lead him to proclaim a faith or a believed truth not relished by the group which believe, and no doubt with deep sincerity among some, that the laws of business are immutable and that the world must be governed by them; and that, as a consequence, all knowledge and skill, inherited or acquired, must function under the control and only in such measure and direction as will fulfill the law of loan and interest, or of investment and dividend.

From this present aspect of affairs—and not by any means does the writer assert that there are no exceptions—even such an institution as the established church is not exempt, as we may agree, at least in so far as its ministers have themselves arraigned it. Doctors beseeching a legislature to make the splitting of fees a misdemeanor, offer an example of commercial infection well recognized. The history of the Inter-Church Movement is a striking example of most of the rather loosely generalized preceding statements. But they are meant to be such, for there is here no thought of attempting to support them with recorded evidence of an unassailable kind. The answer can be found or the challenge can be accepted and dealt with by any reader who can fairly apply a simple test to himself.

THE INTER-PROFESSIONAL CONFERENCE

Something more than two years ago, a group of men and women met in one

of our large cities as a result of preceding activities by one of the recognized professions. The meeting had no object in view except to draw together a number of people who were thought to have certain sympathies and a more or less well-related attitude of mind on the subjects of professions and professionalism. There were architects, chemists, dentists, doctors, engineers, journalists, lawyers, nurses, preachers, teachers, both men and women, and, when the meeting was called to order, it is not an exaggeration to say that no one present had any idea of what the meeting would accomplish, or what form the discussion would take. It was to be, as its name implied, an Inter-Professional Conference, for discussion and counsel, for an exchange of opinion and thought, and for a possible revaluation of the professional idea or a restatement of the professional obligation. That the War had stimulated all of those present to keener searching and questioning is not to be denied, although the idea that the professional responsibilities have a common denominator is not by any means a new one.

The discussion opened by an informal statement from the presiding officer, which was followed by numerous expressions of opinion, and gradually it became evident that a profoundly similar thought was moving the majority of the minds present, a thought which bore a striking resemblance to a certain quest for freedom—that everlasting quest of small groups in all ages. It needed, apparently, no more than a sympathetic contact of mind with mind for crystallization to occur, and thus the committee, into the hands of which was given the task of translating the crystallized idea into language, found its task no more than the seeking of those words which would precisely, yet not too rigidly, define an expressed conviction.

The report of the committee was as follows:

The object of the Inter-Professional Conference is to discover how to liberate the professions from the domination of selfish interest, both within and without the professions, to devise ways and means of better utilizing the professional heritage of knowledge and skill for the benefit of society and to create relations between the professions looking toward that end.

So far as the writer remembers, the only discussion of any importance centered around the word "interest." Should it be used in the singular or the plural? Was it intended to indict selfish interest as an individual problem or as a group or collective evil? The answer is, of course, that the word remained in its singular form, which is the best evidence to be offered in support of the belief that the conferees saw themselves not as beings set apart, but as component parts of a machine from which none can be set free until all are set free.

THE DOMINATION OF SELFISH INTEREST

In other words, with perhaps one or two exceptions, the vocationalists gathered together at Detroit gave utterance to their earnest convictions, and admitted each to the other, that they could not truly practise their callings because of the domination, to a greater or lesser degree, of a thing which they called "selfish interest." And having so declared themselves, they did not fly to remedies and panaceas. Without words and without any ado, they felt instinctively that any struggle toward liberation would, by its very nature, be a challenge to the conventional order and to the whole established habit of thought. Very wisely, and very humbly, they resolved to seek to discover how to do what they felt must be done. Should they organ-

ize for the search? In the face of a tacit admission that all institutions and organizations had so far been impotent to check the swelling tide of selfish interest, it seemed strangely inconsistent to call yet another organization into existence.

One speaker made an impassioned plea against any save the merest commingling of men and women with a common purpose. "Let it be a personal crusade," said he. "Let us go away and come together in a year. Then we may report our adventures and tell our experiences, and in so doing, perhaps, we may find ourselves a step further on the way. Let us beware of organizations in a world where all organizations are no more than autocracies more or less thinly veiled, in a world where every idea that suffers institutionalization perishes in a miserable allegiance to the institution rather than to the idea; where almost every continuing group of beings becomes no more than a center of activity for selfish interest. Our problem is a personal one, and can never be solved by any organization."

Now the Inter-Professional Conference has passed into history. Its organization survived barely a few months, probably for the reason that the problem is not only personal, but spiritual, and the spirit of man has not yet successfully been organized. Yet the question raised is one of almost terrible moment. How can society become the beneficiary and not the mere gatherer of crumbs from the tables of professionalism? No better summary of the situation can be made than in the words of the speaker who said:

Our knowledge and our skill are inheritances. They have been bought and paid for by the laborious struggles of men and women down through the ages, through sweat and agony, through suffering, poverty and deprivation. They are ours by inheritance only, and we are the trustees of that

knowledge and skill. They belong to society. It is not a question of whether we should give back part of them as a charity. Our first obligation is to the society from which all derive them. Men have never sought to carry the treasures of knowledge to the grave. They have ever sought to give them to the world, and we, through our application and study, seek to acquire what they have given to mankind. But it was to all men that the knowledge was given. No chosen few that use it have the right to sell it for private gain to others who use it for private gain, unless in so doing they confer a true benefit upon society as a whole.

THE RESPONSIBILITY OF PROFESSIONALISM

That is the challenge being thrown down by our industrial machine, by our unworkable cities with their centralized populations, by our acres of slums, by our declining agriculture, and by the red gauntlet that is still dripping with the blood of our brothers. We have sufficient knowledge and skill to change our environment at will, to restore the balance of industry and agriculture, to abolish the frightful waste of resources, including life, which now marks our helter-skelter method of production and distribution as we pursue them under the lash of selfish interest. Yet we are incapable of so applying that knowledge except in the scantiest degree. The engineer and the architect, for example, in serving the individual selfish interest of their clients, can give only such regard to the interest of the community as the pecuniary factors involving their client will permit. There is no one to represent and defend the public interest except to a meager degree under police regulation, a safeguard quite as honored in the breach as in the observance. That function of government, the protection of the social welfare, if it has at any time existed since the

supersession of Canonical Law by Roman Law, long ago disappeared. The forces of selfish interest are everywhere too strong, and yet—the keepers of knowledge and skill hold the key to the main gate. That is their inescapable responsibility. It is their common problem, and yet their personal problem. Whether we contemplate the desolate moral waste inflicted upon society under the guise of law and its practice, or the mass of sham and tawdry productions devised with the help of chemists and engineers, or the monstrous urban agglomerations that the scramble for land values has produced with the help of architects and

the building vocationalists, we surely cannot but agree that, as trustees of their inheritance, as guardians of the common social possession, the professions have failed lamentably.

But if history means anything, it means that no civilization has a chance to survive except as the forces of knowledge and skill can remain socially victorious over selfish interest; except as all vocations rest upon the basis of that freedom which not only enables, but inspires men to put the honor of their calling above the reach of client, corporation, or government—which means, does it not, above the reach of their own weaknesses.

The Ethics of the Legal Profession

By HENRY W. JESSUP, J. D.

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MANY words in common use are hard to define. Even lexicographers fail in their task. Witness the early dictionary which defined, "CAT: a small domestic animal."

The word profession has, for many Anglo-Saxon generations, called up to mind medicine, theology, law. These have been called "the learned professions." Each of them, in respect of its members, imports training, the possession of certain qualifications (variously prescribed) and an ordination vow, a Hippocratic oath or an oath of office.

The state, of which a lawyer *ex virtute jurandi* becomes an officer, at least of its judicial branch, professes to the public that he possesses certain qualifications of learning which are capable of being ascertained by official bar examiners; and, in favored localities, he is also solemnly certified (as are also bartenders and chiropodists) as possessed of good character. The attorney himself professes to such of the community as may employ him (or call upon him for gratuitous service), that he has capacity to assert and defend their legal rights in the courts of justice, or to counsel them correctly as to their rights and liabilities in their business relations.

Law is a double profession. It has an objective and a subjective phase. In its subjective aspect it possesses a life of the spirit, a high and lofty ethic;

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higher than the gentleman's "noblesse oblige." It is equivalent to the ordination vow of a priest in the temple of Justice. It involves subjection to self-denying ordinances and domination by a spirit of unselfish service.

How far below such a plane are those who would make it, as well as call it, a business, a means of money-making or of political preferment alone?

In another connection the writer has outlined the threefold obligations of the lawyer¹ in dealing with the question of the status of this profession in our social economy, and shown that he has a triunity of duty: to his client, to the court and to the community.

THEORY OF THE UNIVERSAL RIGHT TO PRACTISE LAW

It is assumed even in the most recent analysis of the subject² that in a democracy everyone has a right to enter any profession, and that it is undemocratic to erect such barriers at

¹ See Address in *Hubbard Course on Legal Ethics*, Albany Law School, 1905.

² See Bulletin Number Fifteen, Carnegie Foundation for the Advancement of Teaching, entitled, *Training for the Public Profession of the Law*, 1921, by Alfred Z. Reed, pp. 469. This bulletin is prepared by a layman. It shows painstaking labor. Its facts are ably marshaled. But it illustrates the inadequacies of the grasp of a professional problem by a non-professional mind. It has been well said by Mr. Ringrose: "The errors of men who are not familiar with the practical working of legal institutions will be errors of detail." The corollary is that "professional opinions often neglect first principles" since "the practice of an art is apt to obliterate from the mind the science on which its philosophy is founded." *The Inns of Court* (1910), Hyacinth Ringrose.

the gate as may prevent or deter the average man from entering activities which are so closely related to the political interests and life of our respective communities. To avoid this implication the author, Mr. A. Z. Reed, concludes that a unitary, that is, an undifferentiated, bar "not only cannot be made to work satisfactorily but cannot even be made to exist." He also concludes that adequate professional tests cannot be provided, to which all training schools shall conform, and agrees that there must be "types" of lawyers produced by "types" of legal education. We suppose that students would again become as in the Roman days "*studioni juris vel jurisprudentiae* (N.B. *vel* = or). They would either become mere practitioners, or rise to the foot hills of advocates or to the mountain tops of *jurisconsultus* or *jurisperitus*."

I do not believe it. There will always be *grades* of lawyers, but the English differentiation between barristers and solicitors is not one to be made here by statute, but by natural selection—and the profession, once awakened, will see to it that the right to enter it shall be so standardized as effectually to exclude from its privileges the "completely incompetent individuals" who, under our present haphazard and uncoordinated systems of bar examinations, can enter its priesthood in a state maintaining low standards and migrate, later, under our ridiculous rules of democratic comity, into the bar of a state having high standards.

At any rate, we have this theory of the universal right to practise law. It has even entered into the decisions of the highest tribunal of our country. The Supreme Court of the United States has observed, "It is undoubtedly the right of every citizen of the United States to follow any lawful calling, business or profession he may choose."

But the Court most wisely continues, "subject only to such restrictions as are imposed upon all persons of like age, sex and condition."³ Fortunately, in many of our states certain intellectual standards and, in some, qualifications of character are erected and exacted to which the applicant for admission to this particular profession must conform. It is, after all, the personal equation that counts and it is the exceptional man who enters a learned profession. Theoretically, he should have a *vocation* to the law as he is expected to have to the ministry. As St. Paul said, "Woe is me if I preach not the Gospel," and the ideal lawyer should be under the similar constraint of an all-else-excluding vocation. Otherwise he will soon find his level. Mr. Wigmore had this in mind when he styled the profession a "priesthood of Justice."⁴

The exhaustive research into the history of the profession, into the nature and extent of its organization and the association of its members into bodies, more or less self-governing and intended to impact upon the community by collective action, embodied in Bulletin Number Fifteen above referred to, makes one regret that the superficial character of its conclusions, though based upon more or less adequate premises, warrants the stricture upon it in Dean Stone's elaborate analysis of that Bulletin. This is, broadly, to the effect that it seems to recognize that, while a first-class law school is requisite for the production of a first-class lawyer, a second-class law school has a *raison d'être* in order to meet the *democratic need for second-class lawyers*. This reminds us of the farmer who cut in his barn door a large hole for the large cat and a small hole

³ 129 U. S. 114.

⁴ Introduction to *Ethics of the Legal Profession*, by Orrin H. Carter, 1915.

for the kitten. If the only object is to give access to the barn, it would be more economical and make a better-looking door, if no cutting of holes was done at all, and the door was left open for cat and kitten alike. Either may, if occasion arise, be chased out by the owner of the barn.⁵

THE NATURE OF THE PROFESSION

The word "profession" has been defined substantially, again by the Supreme Court of the United States (and I venture to paraphrase its language), as a vocation involving relations to the affairs of others of such nature as to require for its proper conduct an equipment of learning or skill, or both, and to warrant the community in making restrictions in respect to its exercise.⁶ And when such restrictions are embodied in statutes of the state, or in rules of court, and the appropriate authority certifies A to be a member of the bar of that particular state, it *holds him out*, as already hinted above, to the community as possessing the qualifications contemplated by the statute or by the rules.⁷ On the other hand, any lawyer possessing a certificate to practise in the supreme court of his state, in a particular federal court, or in the Supreme Court of the United States, *holds himself out* as possessing qualifications of efficient service to those members of the community whom he is there to serve.

The fundamental, underlying element, therefore, of professional life is this idea of an efficient, skilled service. The assumption in Bulletin Number Fifteen that under our democratic institutions the right to enter any

profession is an inalienable right, must be taken with a grain of the salt of commonsense. Our records are full of descriptions of the respect or lack of respect in which lawyers have been held in the beginnings of all democratic communities. The experience has been that the trial has been made over and over again of getting along without lawyers. They have even been prohibited by law. Our colonies were at the outset peculiarly the victims of this misconception and false theory. But it soon became obvious that not only must lawyers be recognized as important factors in the community, but that bad lawyers must be repressed and suppressed and, therefore, that standards must be erected to which all lawyers must conform.

At first an oath was deemed all-sufficient. It is a sad commentary upon the profession itself that it took a century before the American bar as a whole came to the consciousness of the fact that it must in addition to such oath, erect standards or canons of ethics; that it must publish those standards to the community at large, so that men could know, not only what they could expect of lawyers, but what lawyers were expecting of one another and what the courts could require of them. And it has taken nearly a generation since this formulation of canons was first mooted for the courts themselves to depart from the narrow precedents of former decisions, which tended to restrict their power over lawyers to penal lines (that is to say, lawyers were to be disbarred only if they had broken the statute of the state forbidding the doing of some particular thing). But now, judicial decisions, east and west, are beginning to embody recognition by the judges of the fact that when a member of the bar indulges in indecent solicitation of business, or undignified advertisement

⁵ But see Mr. Reed's rejoinder, just published, *American Bar Association Journal*, February, 1922, p. 114.

⁶ Paraphrased from *United States v. Laws*, 163 U. S. 258.

⁷ *In re Bergeron* 220, Mass. 472.

of his wares, or in other breaches of our canons, the courts will assume that such a lawyer may be censured, suspended or disbarred for violation of the canons in force in the profession. We have, thank God, reached the stage when a lawyer must respect "the essential dignity of the profession" as well as the Mosaic Decalogue and the penal law of his state.

Nevertheless, the idea persists, and it is endorsed by men of high repute and standing (and this is very hard to understand), that *because* of our democratic institutions, and *because* of this "inalienable right" to practise law (if one can secure the necessary state certificate), and *because* the law is a social-service profession, then, since efficiency is the keynote of today, the law and its practice must be conducted on the basis of efficiency; that it is, after all, a business, and a money-making business, and that it would be idle for the lawyer to compete with other lawyers without the same prudent and diligent use of business methods, of "hustling," of advertising, price fixing, etc., which the ordinarily reasonable and active business man uses in the transaction of his business affairs.

Mr. Julius Henry Cohen, rendered a great service to the profession by his book, *Is Law a Business or a Profession?* (1916, Banks Law Publishing Company), in which he has traced the preparedness for ethical standards and has discussed and tabulated data as to admissions and disbarments up to 1915 in the State of New York. (q.v.)

COMPENSATION FOR EXERCISE OF SKILL NOT TO BE REGULATED

Passing one step farther, it is obvious that members of a profession devoted to service and, under our institutions, entitled to compensation for such service, ought not, if we consider the

liberty of the individual alone, to be regulated in respect to compensation for such service. It has been said by them of old time: "Thou shalt not muzzle the ox that treadeth out the straw," and, "The laborer is worthy of his hire." Yet this matter is a matter of common concern. Doctors have their scale of charges for office- or house-visits but surgeons, outside of occasional agitation of the subject, reserve the right to fix their own fees for special operations requiring a maximum of preparation, education, practice and skill. And so in the law, while as many lawyers render gratuitous service to poor clients as do physicians to needy patients, nevertheless, in small communities where everyone knows everyone else, it is not infrequent to find the establishment of a so-called "fee bill" or agreed regulation of minimum charges, so that no lawyer can undercut his competitors. The theory of this, however, remains that in proper cases and under special circumstances the individual lawyer is not to be limited to the minimum fixed by such tariff table.

These two elements, the profession of a given degree of skill and the right to charge for the exercise of that skill, underlie the obligation to the client and give rise to cause of action against the lawyer for malpractice; that is to say, upon demonstration of the fact that by reason of his not possessing the proper skill he has failed to perform his contract of efficient service to his client, whereby his client has been damaged, the lawyer may be held responsible for damages, as may the doctor for improper medical care or surgical treatment.

ORGANIZATIONS AMONG LAWYERS

Before discussing the nature and extent of the standards which the collective bar may promulgate as the

norms of conduct to which all its members must conform under penalty of exclusion from the privileges and dignities of professional life, just a word as to organizations of lawyers. It is impossible here to set forth the number and type of organizations and their jurisdiction of the standards for admission to membership, financial support, etc., throughout the forty-eight states of the Union.⁸ Great detail in this respect is contained in Bulletin Number Fifteen, prepared with meticulous care over a period of eight years.⁹ For the purpose of this survey it is sufficient to say that the American Bar Association, with a membership of 14,111 in August, 1921, represents in one sense the aristocracy of the American bar. It is, however, an aristocracy to which any lawyer of good standing may be admitted, regardless of his estate, because the dues are nominal, \$6 a year. Its meetings are held once a year; most of its work is done by conferences of its sections or by committees devoting an enormous amount of *ad interim* time to the examination of problems that are referred to them, and, in spite of all the criticisms made upon this body as not being really representative of all the associations, it impacts upon the community in many decisive ways.

In three respects alone it has justified its existence:

First, in the activity of its Committee on Uniform State Laws.¹⁰

⁸ See article by Mr. Harley, page 33.

⁹ See Bulletin Number Fifteen, Carnegie Foundation for the Advancement of Teaching, entitled *Training for the Public Professor of the Law*, 1921. Pp. 57-111. See also the Sixteenth Annual Report of the Carnegie Foundation.

¹⁰ See Report of that committee in *Year Book* of the Association for the last ten years, tabulating the number of uniform laws that have been adopted in the different states as a result of its agitation.

Second, in the very fact that it has promulgated canons of ethics which have been adopted by the bar associations of nearly all of our states.¹¹ The adoption of these canons by state and even by county bar associations, the printing of such canons and the exhibition of them in court houses and other public places for the information of the other members of the community; the recognition of such standards by the courts in disbarment proceedings, or in actions against lawyers for improper or negligent conduct, have spread the interest in ethical standards over the entire country, and, in particular, have resulted in the adoption of such canons by other organizations of professional men.

The *third* respect in which this Association has justified its existence has been in its convening at the time of its own meetings representatives of all the bar associations willing to send such delegates from the different states, thus forming a nexus between, or shall we say a clearing house for, the local and the national associations. Such combining of associations in the discussion and settlement of great questions has led, notably, for instance, to such gatherings as the Conference of Bar Association Delegates recently held in Washington, February 23-24, 1922, on the subject of "Legal Education," attended by nearly four hundred delegates, representing over one hundred bar associations, and presided over at its different sessions by the Chief Justice of the United States, and by Mr. Elihu Root (whose titles of eminence as a lawyer are numerically too many to be tabulated), the conclusions of which Conference have now become a matter

¹¹ See *Report of American Bar Association, Committee on Ethics*, 1920, referring to questionnaire to judges of all the courts, state and federal, issued by that committee.

of public knowledge, interest and record.¹²

MODIFICATIONS IN ADOPTION OF CANONS OF ETHICS

Nevertheless, here and there in the different associations the canons of the American Bar Association have seemed to be "counsels of perfection." In one respect or in another local associations have modified some particular canon. Some of them are reluctant to visit with the weight of displeasure, even to the extent of mere censure, one who "solicits business," or one who "advertises" in certain modified fashions. Others are hostile to the "contingent fee," however regulated. Thus the American bar as a whole lacks uniformity: (a) in respect to its standards as aforesaid; (b) in respect to their enforcement in disciplinary proceedings. In this second respect a contributing cause is the almost inexcusable mental attitude of many judges charged with the duty of disbarring. Witness, for example, the answer of a Kansas judge to the questionnaire issued by the Committee on Ethics of the American Bar Association to the different judges of the country, when asked as to disbarment proceedings in his court. He stated that there had been one case where a lawyer had embezzled the funds of his client and that the court had suspended proceedings "on condition that he should leave the state!" And then he added, "But I have since been informed that he has removed to Wichita, and is practising there."¹³ Others, as above indicated, insist upon proof of violation of some penal statute before they will disbar a man; still others consider that

mere restitution at the pistol point of disbarment proceedings to the complaining client should rehabilitate the man in the confidence of the profession, the bench, the client and the community.

We must add to this situation the attitude of the local associations, by which I mean the county bar associations, which, in an experience extending over a number of years in connection with the Committee on Grievances and the Committee on Legal Ethics of the American Bar Association, and like committees of the New York State Bar Association, I have found peculiarly unwilling to bring fellow members to the bar of justice. They will resort to great and laborious efforts at negotiation and settlement of the particular controversy that brings that man before them for discipline, and I might generalize by saying that in 90 per cent of the cases a liberal coat of whitewash is administered to the attorney complained of upon his agreeing "not to do it again." The confidence in the profession due to popular knowledge that it has canons of ethics is more than destroyed by the discovery that the canons are but *brutum fulmen*.

A notable exception to this situation must be recorded in the case of certain associations that have organized themselves for the purpose of keeping the local bar clean, and have appropriated liberal amounts to pay salaried attorneys who devote themselves especially to the task of receiving, sifting and, if necessary, presenting complaints to the appropriate court and securing the determination of that court. That has been peculiarly true in the case of the Association of the Bar of the City of New York, of the New York County Lawyers' Association, of the Kings County Bar Association in Brooklyn and of the Chicago Bar Association. Every reader can supplement this list,

¹² Readers interested in this, can write to Mr. Shippen Lewis, of the Philadelphia Bar, who was secretary of this conference.

¹³ See also *Journal American Judicature Society*, June, 1920, on "Sanitation of the Bar in Pennsylvania."

or find exceptions to it from his knowledge of his own community.

THE BAR AND THE ELECTION OF JUDGES

To what extent does the local bar become active and exert a real and effective influence in the nomination and election of judges?

How perfectly true, in this connection, are the words of Emory Washburn in his famous lectures on "The Study and Practice of the Law," delivered at Harvard, that "the lawyer is not only a member of a profession but a member of the community." Yet the answers to the questionnaire (of the American Bar Association) revealed the fact that in most districts it is not considered "the thing" for the bar, as a collective body, "to butt into" politics, and it seems to be assumed that the furthest extent it is "dignified and proper" to go is to have committees appointed to examine into the qualifications of the nominees of the respective political parties, *after* they have been selected, and to report on their fitness for the bench. This is usually to act too late. It certainly would seem that the influence should be exerted farther back; that the bar is best fitted to judge as to what one of its members, or more, is qualified by education and temperament for the judicial office and, if need be, to force such nominations upon the local political organizations.

The fact remains that the reports made by committees on judicial nominations, even when given the publicity that they are by the press, in such a center, say, as New York City, fail to impact upon the consciousness of the large majority of voters, who do not read the papers in which these reports are given publicity and who would not pay much attention to them if they did. Allowing for differences of political conviction, opinion and affiliation,

is it conceivable that the influence of two bar associations, having an aggregate membership of six or seven thousand out of the ten or twelve thousand lawyers in a particular political unit (if exerted directly upon *organizations*, that is, upon the persons who, after all, in spite of direct primary laws and various ballot reforms, control nominations in the various parties capable of electing a candidate), would be without its effect, and could fail to insure high standards in the qualifications of those nominated and elected to judicial office?

When one rereads that great argument of Rufus Choate, made before the Massachusetts Constitutional Convention, in which he argues for the appointment of judges as distinct from their election by popular vote, one has to marvel indeed at the high standards of dignity, impartiality and efficiency nevertheless manifested by the elective judiciary of our great municipal centers. In spite of petty grievances, disappointed litigants and charges of political sub-cellar influence, the cases of complaints against judges before bar associations or in impeachment proceedings are gratifyingly few, both in states where the judiciary is appointed and in those where it is a political office to be grasped at.

CLEANING THE AUGEAN STABLES

It is impossible to give a statistical survey of the number of trials and convictions for violation of ethical standards covering the various states of the Union. A tabulation of them would cover many pages and, in the character of the penalties imposed to distinguish illegal from immoral or unethical acts, would require a volume in itself. Anyone interested in any particular state has only to ask some legal friend to communicate with the grievance committee of that state's

bar association to secure such data. The fact is probably the same in all the states, that conviction of a penal offense operates to disbar a lawyer; that, nevertheless, it is usually necessary to inform the appropriate tribunal of the fact of his conviction and have his name stricken from the roll. The question has arisen from time to time whether a pardon for the offense automatically reinstates the attorney. In my opinion it does not, but application must be made for such reinstatement. If the offender so pardoned should practise without such formal reinstatement he is liable to further discipline and prosecution. The violation of penal laws without actual conviction is sufficient proof of obliquity of moral character to warrant any court in disbaring.

It is when we come to the finer shades of lack of ethical perception that grievance committees find difficulty sometimes in persuading the courts to act with sufficient firmness. In the appendix to this volume appear canons of ethics, not only of the American Bar Association but of the Commercial Law League of America. The path of the collection lawyer towards ethical purity has been an arduous climb. The trouble has been to differentiate between collection agencies and their attorneys. It has aroused vehement discussion of the propriety of the division of any professional fee with a layman, which has been criticized as affording a cloak whereby a lawyer, by incorporating a collection agency, can resort to means of solicitation of business in which the corporation, having no soul, is free to indulge, and from which he reaps the harvest or agrees to divide his fees in order to secure the employment.

A notable contribution to the welfare of the profession generally, and to this branch of it in particular, was

made when the New York County Lawyers' Association, in a conference which lasted months, at which these practices were discussed with representatives of the "commercial lawyers," finally, in its notable answer to Question No. 47, laid down certain rules or principles governing the conduct of such attorneys.

Ignorance of ethical standards on the part of a very large number of members of the bar, whose business is small and of whose income collections afford the fundamental, was shown in the reports of one of the conferences of this Commercial Law League held at Atlantic City. One member, it seems, said he had heard so much about "ethics" at that meeting that he decided he would try to find out what it meant, so he asked his waiter at the Chalfonte, "Sam, do you know what this word 'ethics' means?" "I reckon I do," replied Sam. "What is it?" asked the inquiring member, and Sam said, "Just about the same as that word 'etiquette' which tells you there is certain things you mustn't do, *if anybody is looking*."

This incident pitifully illustrates the absolute necessity of having bench and bar alike ingrained with the conviction that these standards of ethical conduct are norms to which all lawyers must conform, whether the lawyer is a general practitioner, a collection lawyer, a patent-lawyer, a negligence lawyer or a corporation lawyer. Specialization releases from no obligation. This is not to say, however, that every lawyer violating any canon must be disbarred. There are many cases where a lawyer through zeal or ignorance offends against the essential dignity of the profession but, being brought to book and censured, may be sufficiently shocked into appreciation of the standards to remain or become a useful member of the community.

EXTENSION OF IDEA OF OBLIGATION FOR PUBLIC SERVICE

Whatever the temporary criticism of the profession in popular estimation may be, the fact is that all really critical observers of our social conditions have recorded their conviction, as did De Tocqueville, when he said, for example, that the influence which members of the legal profession "exercise in the government is the most powerful existing security against the excesses of democracy." In another sentence he refers to the bar as the "most powerful if not the only counterpoise to the democratic element." A similar conviction is registered in the appeal which is made to the New York State Bar Association in support of an International Bar Association, organized in Japan by Dr. Rokuichiro Masujima, ex-President of that Association, Honorary Member of the New York State Bar Association, Barrister at Law of the Middle Temple, as well as an honored member of the Japanese bar. His contention is that the combined influence of lawyers all over the world, devoted to the principles of the common law, should be a guaranty in the human family that principles of common justice will through their influence leaven the political world.

St. Paul, in his great summary of the Christian martyrs, began his appendix with the words, "Time would fail me to tell of Barak,—and of Gideon," and, similarly, to call the roll of members of the American bar who have dominated the public affairs of our nation would be to make of this publication an encyclopaedia of names.

This fundamental idea of public service is expressed by Shakespeare himself in *As You Like It*. We all recall the line, "When labor sweats for duty, not for meed."

In many of the lectures delivered on

the Hubbard Foundation at the Albany Law School on the subject of "Legal Ethics," one distinguished speaker after another has emphasized the fact that the great lawyer is not the man who enters the profession as a means to acquire a fortune. He must enter it, as we have noted above, as a vocation, with the idea of rendering service. He must have the spirit of Lincoln as contrasted with the spirit of Webster, great advocate though he was; for even in the Girard Will case, when Webster could secure no present refresher or retainer, he exacted a contingent fee agreement.¹⁴

NEED FOR PROPAGANDA

Bearing these considerations in mind, there is no question but that there must be propaganda. When the canons of the American Bar Association had not yet been adopted by the Association, or, having been adopted, had not yet been endorsed or adopted by various state associations, there was a great deal of discussion and propaganda. In the City of New York lawyers interested in this matter not only conducted this propaganda in legal magazines and in the public prints but volunteered, and were actually appointed, to deliver addresses on the subject at various Y. M. C. A. centers, in the Phipps Settlement, in Cooper Union, and other public places under the general title of "What the Ordinary Citizen Is Entitled to Expect and Exact of His Lawyer in the Way of Fidelity, Honesty, Diligence, etc."

The late General Thomas H. Hubbard by gift in his lifetime established a lectureship or foundation at Albany Law School, to which every year one or more speakers of influence is appointed to indoctrinate the students of

¹⁴ A copy of this was furnished by me to and published by the *New York Law Journal*, some years ago.

that particular school in respect to ethical standards. This example might well be followed in other schools. A determined effort has been made by committees of ethics in different states to see to it that either by persuasion or by the compulsion of rules of court, law schools expecting their certificate of graduation to be accepted by bar examiners as the equivalent of a clerkship or prescribed years of study, should prescribe and faithfully carry out a certain number of hours of lectures upon the subject of legal ethics. Dean Costigan endeavored to fill this need. He made an exhaustive examination of the sources of the standards or traditions showing the growth of the rules governing conduct becoming a member of the bar, and collated with that the answers to questions given out by the New York County Lawyers' Committee (the clinical reports of which have a circulation all over the world and have in but one or two instances occasioned adverse comment or complaint). This treatise¹⁵ contains a most fascinating history of the entire subject. Obviously this matter is intimately and vitally connected with the nature of legal education. And it is surprising that those who come in contact with the eager youth who are looking forward to qualifying for this great social service, so often prove impatient of the suggestion that their teaching should have this moral side line, or of the more extreme requirement that the ethical viewpoint should underlie all their instruction as to the methods and practice of the law. One Dean replied to a letter from me in this regard that he had no cure for souls. What a pedagogic heresy! Every teacher has the fashioning or at least the polishing of a soul.

¹⁵ *Cases on Legal Ethics* in the American Case Book Series, 1917, West Publishing Co.

In order to summarize this discussion the following is submitted as a redaction to fundamental principles of the thirty-two canons of the American Bar Association:

A DECALOGUE OF THE PROFESSIONAL OBLIGATIONS OF THE LAWYER

(1) As an officer sworn to uphold the Constitution and to the proper enforcement of the law, the lawyer should by his conduct and counsel exemplify the law-abiding spirit and refrain even in his private life from anything contrary to the spirit of the moral and statute law.

(2) In his relation to the courts, the lawyer should in his conduct maintain their dignity by respectful address, by punctilious discharge of all forensic duty, and by abstaining from all attempts to curry favor, or from the appearance even of using personal relations to secure professional advantage.

(3) In his relations to clients, the lawyer's duty arises from the confidence reposed in his learning or ability; for which he is to be paid. Therefore:

(a) In the conduct of unlitigated business he owes a scrupulous fidelity to the client's highest interest and must seek no advantage or profit to himself outside of his reasonable compensation.

(b) In advising litigation he must be guided by his own (or counsel's) judgment of the law applicable to the points in issue. He should never countenance by acceptance of a retainer unjust, useless or oppressive suits, or consent to the interposition of merely dilatory, false, or sham defenses.

(c) In actual litigation, he may use all procedure provided by law appropriate to the protection of

his client's interests; he must be alert and diligent in prosecution; vigilant and careful in defense; refrain from any attempt to deceive a court or jury; be courteous to his fellow lawyers, and obliging in matters not inconsistent with his client's rights.

(4) The lawyer must not violate his client's confidence unless, in a proper case, compelled so to do under oath. He must not use knowledge so gained to his client's undoing or disadvantage and, if entrusted with money or property, he is in the highest degree a trustee and liable professionally for any failure to administer the trust reposed in him with scrupulous fidelity and capacity.

(5) The lawyer is always entitled to his reasonable compensation; this may be contracted for with the client provided no advantage be taken of his ignorance or necessities. Contingent fees, where not unconscionable in amount, are proper if the client desire such form of compensation. But in all cases he must avoid even the appearance of champerty or maintenance.

(6) A lawyer employed for or assigned to the defense of one accused of crime is, even though apprised of his guilt, bound by his duty to ensure a fair trial and to prevent conviction save pursuant to the law in that case made and provided.

(7) The lawyer should not solicit, or permit others to solicit for him, any professional employment. No division of fees or agreement therefor is proper except with fellow lawyers based on a division of service. Self-advertisement is commercial in spirit and tends to lower the sense of professional dignity.

(8) In his relation to the community of which he is a citizen the lawyer occupies a position of peculiar responsibility. His respect for the law and the

courts in which it should be administered should make him fearless to expose and attack any breach of judicial integrity. So also he must be vigilant to assist in purging the bar of unworthy members. He should be quick to attack any abuse of process of law or any invasion of the rights to life and liberty guaranteed to all by the Constitution.

(9) If invested with public office he is bound to a higher efficiency of service by reason of his knowledge of the law. If he serves as a District Attorney he represents the people of the state. He is sworn to enforce the law but cannot stoop to oppression or injustice—such as the suppression of evidence or the secreting of witnesses who might tend to establish the innocence of one he is prosecuting.

(10) If elevated to the bench his obligations become intensified. In the discharge of his judicial duties he should be studious, patient, thorough, punctual, just and impartial, courteous and fearless, regardless of public clamor or private influence.

CANONS OF JUDICIAL ETHICS

Since judges are, under our form of government, a part of the governmental power, and sworn to uphold the Constitution, and chosen to interpret, apply and enforce existing laws, it is clear that their ethical obligations are greater than those of their brethren at the bar, from whom they have been thus set apart.

These latter have a primary duty to a client opposed to the client of another in interest, and this duty modifies at times their duties to the court and to the community.

A committee of the American Bar Association, recently appointed, of which the Chief Justice of the United States, it is believed, is to be the chairman, are to engage in the task of

formulating canons for the judiciary.¹⁶

That task will require time for its performance.

For the purposes of this symposium, however, the following may be proffered as a nucleus for elaboration.

A PROPOSAL FOR AN ETHICAL DECADE-LOGUE FOR JUDICIARY

I. Having sworn to uphold the Constitution and being charged with the solemn task of administering justice among his fellow citizens under the law, the judge should be *juris peritus*, learned in the letter and spirit of the Constitution and of the statutes enacted in conformity therewith—and should keep himself constantly informed and in touch with the social development of the community he is to serve, in order that he may adequately apply that learning to the varying needs that emerge in the controversies submitted to him for arbitrament.

II. To learning he must add impartiality. "He must not respect persons in judgment." In holding the scales of Justice he must not allow personal or political hostility, on the one hand, or

friendships or prejudice, on the other, to weigh in either balance. Whether the parties before him are friends or foes, or whether they be known to him or unknown, he must be blind to considerations other than those constituting or arising from their respective rights or obligations under the law.

III. Whatever the degree of his learning, and impartiality, he must in the highest degree possess and preserve a character free of reproach. Himself a priest in the Temple of Justice, he must scrupulously observe the moralities and obey the laws as a citizen, and not arrogate to himself any right to be above them or free from their common operation.

IV. His judicial character presupposes absolute integrity. He should be honest in his personal dealings, and must not put himself under pecuniary obligations before his election, or subsequently, to those who may appear before his court.

His service is a self-denying ordinance, and he should abstain from even the appearance of the evil of profiting by information secured *ex virtute officii* to speculate or invest on the strength of his knowledge thus acquired.

¹⁶ Since writing this article, the author has received a letter from Mr. Charles A. Boston, Chairman of the Committee on Professional Ethics of the New York County Lawyers' Association, the following excerpts of which will be of interest to the general reader.

"In response to your recent request that I contribute something to the forthcoming number of the *Annals* of the American Academy of Political and Social Science, it seems to me that any contribution by me at this time, other than is contained in this letter, would be premature, because the subject of the formulation of Canons of Judicial Ethics by the American Bar Association, to supplement the Canons of Ethics approved by it in 1908, has been referred by the Executive Committee of that Association to a Special Committee which will take the matter under consideration, and I do not feel that I can properly anticipate the action of that Committee.

"I was recently advised by the President of the American Bar Association that he had designated for membership on the Committee

Chief Justice Taft, ex-Senator George Sutherland of Utah, and myself, and that two vacancies remained to be filled from members of the judiciary.

"I do not think it amiss, however, to say that Mr. Everett V. Abbot of this City, and myself, jointly contributed an article on 'The Judiciary and the Administration of the Law' to the *American Law Review* for July-August, 1911, from which I quote the following suggestions in respect to Canons of Judicial Ethics:

"They should clearly and concisely make it known that the judge should so administer the law in the settlement of controversies as to show that he appreciates his position as honorable of itself and honorably to be maintained; that his conduct should uniformly be that of a gentleman and an officer and for the good of the service; that he should be ever conscious of his responsibilities, attentive to his duties,

"He shall do everything for justice, nothing for himself."¹⁷

V. Whether his office be appointive or elective, he should not be swayed in judgment by hopes or fears regarding the continuity of his official service.

In making appointments in aid of the administration of justice, such as appointments of receivers, referees, special guardians, appraisers and the like, he must, on the one hand, avoid nepotism and, on the other, not surrender his duty of selection to any political or other dictator. Those whom he selects act in his place and stead, in relieving his judicial time, and he is responsible for their integrity, fidelity and industry, as for his own.

VI. Charged with the duty of acting as a check in the interests of the people against aggressions or usurpations of power by either executive or legislative branches of the government, he should be fearless to assert his power irrespective of the apprehended effect of antagonisms, and hostilities thus engendered. But here also he must be impartial and sustain if need be these coequal agencies of government, in the

assiduous in their performance, and avoid delay as far as possible; that he should be scrupulous to free himself from all improper influences and from all appearance of being improperly or corruptly influenced; that he should be studiously regardful of the rights of litigants; that he should be an independent and representative citizen, rather than a partisan; that he should use the necessary patronage of his office as a public trust, and that in the selection of referees, receivers, or other judicial appointees he should conscientiously appoint only men known to him to be of integrity and fitness for the duty assigned; and if he is permitted to practice at the bar, or to prosecute private business, he should not permit such matters to interfere with the prompt and proper performance of his judicial duties."

¹⁷ Rufus Choates added to the quoted words:

"Nothing for his friend, nothing for his patron, nothing for his sovereign."

proper use of powers constitutionally bestowed upon either.

VII. He must not allow his judgment to be swayed by the magnitude or smallness of the litigant's interest, or by the insignificance or prominence of his advocate. Intent on ascertaining the truth and reaching an adequate and just decision, he must not fear to protect a party before him from the ignorance or negligence of his own attorney, or neglect adequately to guide and instruct juries in the exercise of their peculiar functions.

VIII. He must wear the ermine with dignity. As the incarnation of justice, he must, when discharging his judicial functions, be free from temper, though he may indulge in righteous indignation if perjury be attempted by witnesses, or if counsel seek to deceive or mislead the court or jury.

He owes to the people, punctuality, at whatever cost of personal inconvenience, calmness, patience and forbearance, lest he be diverted from the issues to be resolved—courtesy to all before him—alertness to testimony and argument, since inattention is the highest discourtesy, is a thief of time and an earmark of inefficiency.

He must cultivate a capacity for quick decision. Habits of indecision must be sedulously overcome. He must not delay by slothfulness of mind or body, the judgment to which a party is entitled.

IX. To be learned, to be honest, to be fair and to be no respecter of persons is still not enough. *He must be believed such*, and so possess the perfect confidence of the community. In such case he may preserve and enjoy his personal intimacies and friendships unimpaired. He may achieve the affection of the bar and the respect of the public, and enjoy that loving veneration which the "Book of Job" records as the meed of the upright judge.

X. None the less is he a citizen, and bound to share the common burden of responsibility for the purity of the common weal.

He must not shirk a proper performance of such duties nor hide behind the judicial gown in times of revolt against oppression or corruption or in crises of social change. His life must be personally, politically and judicially *teres atque rotundus*.

CONCLUSIONS

In that remarkable book seeking to voice the desire of England for a higher and more spiritualized life, the author of *The Glass of Fashion* has embodied that ideal which must permeate every profession that identifies the moralities of that profession with the very character of the being of the man who professes it. His illustration of the expectation of honesty from those who serve him, by even a Bolshevik of the most criminal type, illustrates the fundamental idea of what the community expects of a man of character, and no man has a right, even in a democracy, to belong to a learned or skilled profession who has not the

fundamentals of high character which may be expected to develop into fullness by the very experiences of his service.

What conclusions are we to draw?

I. That, in any democracy, whether loosely organized or highly articulated, public servants must, in theory, be controlled by lofty standards of duty.

II. That the people are entitled to know what those standards are, and *where there are none, to prescribe them*.

III. That conformity to those standards must be enforceable in a proper tribunal.

IV. *That it is to the highest interest of the profession itself* that every case of violation of its ethical standards be investigated and all offenders dealt with "lest the *res publica* suffer."

V. That the courts, when unspurred by a bar of high ideals, have failed adequately to regulate professional conduct, and therefore the bar must be so organized as to be self-disciplinary. And this even at the risk of appearing to become an aristocracy, or an undemocratic guild.

VI. That judges, as well as lawyers, are to conform their conduct to even more exacting ethical standards.

The Need for Standards of Ethics for Judges

By EDWARD A. HARRIMAN

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LEGAL ethics is defined in Rawle's third revision of Bouvier's *Law Dictionary* as follows: "That branch of moral science which treats of the duties which a member of the legal profession owes to the public, to the court, to his professional brethren, and to his client." On the subject of judicial ethics there is much confusion, by reason of the fact that a judge occupies a dual position. He is, first, a judicial officer of the state or of the

United States; and, second, in most cases, a member of the legal profession. It is not at all essential, however, that a judge should be a member of the legal profession and his membership in that profession is, therefore, an absolutely distinct thing from his judicial office. The highest court in England, the House of Lords, in its original form was composed principally of lay peers. The present House of Lords in its judicial capacity is

limited in membership to the law lords. The highest court in New York State was formerly the senate of that state, largely composed of laymen. In New Jersey lay judges have not been uncommon. The office of justice of the peace is probably held as often by laymen as by lawyers; in fact, in England the justice of the peace was usually a layman, whereas the lawyer was only his clerk.

PRESENT STATUS OF RULES OF CONDUCT FOR THE BENCH

Now, any standard of conduct for the members of an organization must necessarily be imposed on those members either by their own action or consent, or else by a superior power. Standards of ethics for judges, therefore, must be imposed on those judges either by their own action or consent, or by a superior power. It is, therefore, quite out of the question for any bar association to enact standards of ethics for judges. The opinion of the bar association may be absolutely sound, and the code of ethics which it chooses to formulate for judges may be absolutely perfect. The difficulty is not with the rules which the bar may undertake to prescribe for the bench, but with the jurisdiction of the bar to make any rules whatever. The function of the bar in such case is merely advisory. Nevertheless this function should be exercised to its fullest extent.

What standard of ethics has been prescribed for judges by the sovereign power of the state or of the United States? The standard in general is extremely vague. The Federal Constitution uses the words "good behavior." In addition to the general phrase of "high crimes and misdemeanors," the specific prohibitions in the state constitutions are few. Corruption and malfeasance in office, and refusal to perform the duties of the

office; drunkenness; acceptance of passes; and change of residence from the district in which the judge was elected, are the principal things prohibited. There is a very common provision that a judge shall not be eligible for another office, but the effect of this provision seems to be merely a disqualification of the judge for the additional office.

What rules of ethics have judges undertaken to lay down for their own conduct? So far as the writer is aware, no action whatever has been taken by any body of judges in this matter. In 1917 the Committee on Professional Ethics of the American Bar Association made the following recommendation:

That the suggestion of the propriety of the formulation and promulgation of canons for the judiciary be referred to the Judiciary Section of this Association for consideration in order, if the way be clear, to the appointment of a committee to take the matter under advisement.

At the meeting of the Judiciary Section in 1918, the recommendation referred to the Judiciary Section was not even considered.¹

DO JUDGES NEED A CODE OF ETHICS?

Is there any need for a code of ethics for judges? The phrase "good behavior" is, of course, extremely vague. It is no vaguer, however, than the phrase in the articles of war by which an officer in the military service of the United States can be tried by court martial for "conduct unbecoming an officer and a gentleman." The vagueness of the phrase is by no means sufficient ground in itself for a more specific statement of the duties of a judge. It is submitted, however, that a situation has recently arisen which

¹ 1918 Report, pp. 466-469.

calls for a clearer definition of a judge's duties in some particulars. At the last meeting of the American Bar Association, Mr. Hampton L. Carson, a former president of the Association, presented the following resolution upon the unanimous vote of the executive committee:

Resolved, That the conduct of Kenesaw M. Landis in engaging in private employment and accepting private emolument while holding the position of a Federal Judge and receiving a salary from the Federal Government, meets with our unqualified condemnation, as conduct unworthy of the office of Judge, derogatory to the dignity of the Bench, and undermining public confidence in the independence of the judiciary.

Mr. Carson then read Article IV of the Constitution of the American Bar Association which provides, among other things, that one of the objects of the Association shall be to "uphold the honor of the profession of the law." Of what use was it for the Association to prescribe canons of ethics for the regulation of the conduct of active practitioners, if it knew that a man on whom the judicial ermine had fallen had yielded to the temptations of avarice and private gain? That a Federal judge drawing his salary of \$7,500 a year from the Federal Treasury should take \$42,500 a year from an allied club of baseball players was simply to drag the ermine in the mire. Although it must be that impeachment proceedings might not reach him, yet from every bar in this united country there rose up the withering scorn of the profession against the man who had stained its honor. Those who came to deliberate upon that which touches the honor of the profession would go away and hang their heads in shame if they did not rebuke such conduct.

The resolution of Mr. Carson was

adopted by the Association. That the Association had a right to express its opinion, is unquestionable. The only body having jurisdiction to inquire into the conduct of that official, is Congress, but any organization is entitled to express its opinion to Congress and to urge any action it may desire. It is for Congress to decide what weight attaches to the different opinions so expressed. Now, as a matter of fact, Congress has had the benefit of the opinion of the American Bar Association, and of the opinion of the National Baseball Association and it has chosen to follow the latter.

It is only fair to assume that the inaction of Congress in the Landis case is due to the fact that the American people as a whole are more in sympathy with the standards of judicial conduct indorsed by the National Baseball Association than with those indorsed by the American Bar Association.

NEED FOR SOVEREIGN POWER TO PRESCRIBE STANDARD OF JUDICIAL ETHICS²

Now, while the bar has no jurisdiction over the conduct of the bench, it is undoubtedly a great public misfortune when any judge so conducts himself as to receive the censure of the bar. There is no question as to what the judge in this particular case has done, but the baseball people think that what he has done is right, and the lawyers think that it is wrong. From the fact that Congress follows the opinion of the baseball magnates rather than that of the leaders of the bar, it is clear, either that the judgment of the bar is wrong, or else that its judgment is right but that the people at large have not been sufficiently educated to appreciate the standard of ethics upheld by the bar.

² For a proposed code of ethics for judges see the article by Mr. Jessup, page 27.

It seems highly desirable, therefore, that the sovereign power, which, in the case of the Federal judges, is the United States, should define more clearly the duties of a judge with reference to the acceptance of employment in other occupations. Whatever resolutions the bar may pass, it is useless to say that Judge Landis has violated any standard of judicial ethics, because no such standard has been prescribed, either by Congress or by the judges themselves, and it is not within the jurisdiction of the bar to prescribe a standard of ethics for the bench. That a proper standard of judicial ethics would prevent a judge from acting as Judge Landis has done, is the opinion of most lawyers, but that there is not at the present time any such existing standard is absolutely proved by the action, or rather the inaction, of Congress, which clearly establishes the fact that, in popular opinion, Judge Landis has done nothing to justify his removal from the bench.

The function of the bar, therefore, in the matter of judicial ethics, must be educational, and education is a slow process. It would be unwise to make rules that are too general in regard to the performance by a judge of non-judicial work. The best practical method of dealing with this subject would be to provide that a judge shall not engage in any other occupation without the consent of some administrative authority, such as, for example, the Chief Justice of the United States. The freedom of judges from all legislative and executive control is a freedom accompanied with responsibility. In most cases this responsibility is clearly recognized. If a particular judge is more influenced by his personal advantage than by the dignity of his

office, some administrative control over that judge is required, and at present no such administrative control exists, while the remedy by impeachment, as the Landis case has shown, is entirely inadequate.

DEGENERATION OF THE IDEA OF SOVEREIGNTY

The Landis case is symptomatic of the degeneration of the idea of sovereignty portrayed by Laski in his theory of the multiple state. Under a monarchy, service of the sovereign is the most important function. Under our American democracy, it is clear that our democratic sovereign regards the management of moving pictures as of more importance than the management of the Treasury or the Post-Office Department, and the administration of baseball as of more importance than the administration of justice. Mr. Carson speaks of "dragging the judicial ermine in the mire." As a matter of fact, the judicial ermine is simply used to dust off the home plate; which, to the people at large, seems a more important function than dusting off a law book. This degeneration of the idea of sovereignty is apparent in many ways. The other day a college professor was quoted as saying that any man who had more than 15 per cent of patriotism was a nuisance, asserting that 85 per cent of a citizen's loyalty should be devoted to other organizations than his country. *Panem et circenses* was the motto of the Roman populace when the Twelve Tables had been forgotten. Those who do not share Henry Ford's opinion that history is all bunk, may find an interesting precedent in Roman history as to the effect of a popular belief that amusements are more important than laws.

Group Organizations Among Lawyers

By HERBERT HARLEY

Secretary, American Judicature Society, Chicago, Illinois

THERE is a tradition in the legal profession of a golden age. No living lawyer can testify to the existence of a golden age from personal knowledge. If ever there was such a fortunate era it must have been before the Civil War. However skeptical of tradition we may be, we can admit that for a generation before the Civil War the lawyer was better adapted to his environment than he is now.

In that period the law was relatively simple and static. It is the amazing complexity of twentieth century industrial and social life which has brought about the inundation of statute law and the welter of decisions. Professional training which today would imply mediocrity may have then appeared quite adequate.

The lawyer was not subject to such powerful and insidious influences in that simpler age. There were few private interests strong enough to keep a "house lawyer," one under exclusive retainer on an annual contract. There were no corporations existing to do the traditional work of the office lawyer, advertising for clients and hiring lawyers by the year. The country was expanding rapidly. There was enough practice in most places to provide a living. At any rate, the fratricidal competition of later days, with correspondence courses and proprietary law schools turning out graduates far in excess of community needs, had not yet appeared.

There were always temptations, but with fewer lawyers the position of the lawyer was a conspicuous one and the theory that the court was responsible for the ethical conduct of practitioners was still in working condition. It has

validity yet in primitive regions. When lawyers had to rely on a wide range of clientage they were free to refuse embarrassing retainers. There was not the moral overstrain, imposed in these days upon the lawyer who has but one, or two, or at most three clients and must win his suits for his own salvation.

This older profession, limited in numbers and independent in mind and morals, felt some contempt for business. Or, if this is putting it too strongly, let us say that the bar at least exalted the law and its servants. There were few others in the community who could assume the dignity of learning and influence. The lesser competition set the lawyer on a conspicuous level. The earnings which now would seem meager were then ample in view of the respect which the calling compelled.

THE OLDER AMERICAN TRADITION

It is not safe to go much farther back in the quest for the golden age. In certain of the colonies laws were enacted to prevent the existence of a bar. After the Constitution was adopted there were states in which ignorant laymen attempted to administer justice from the bench. From the first, the American bar had to make its way against hostile philosophy. This explains why it never possessed the organic powers enjoyed in other lands. In Belgium, for instance, the bar asserts its independence of both legislature and judiciary. In all other countries there is an organization of the bar which is all-inclusive and which has effective machinery for maintaining standards. The powers to admit

to practice and to expel are exercised by the bar itself. In consequence, the bar is primarily responsible for ethical conduct and it is able to discharge this responsibility.

The American tradition is that the bar exists to assist the courts in the administration of justice and hence that lawyers are "officers of the court." This makes the judges responsible. It is obvious, however, that the lawyer's rôle is larger than assisting the court. The lawyer interprets the law without reference to specific conflicts of rights. Many lawyers, indeed, rarely appear in court. And the courts lack the power to acquit themselves of the presumed responsibility. There are numerous "independent" judges but little judicial solidarity. In most states judges are elected and lawyers play a large part in nominating and electing. The power of the judge over the jury has been restricted by statute very generally, a restriction which exalts the position of the advocate.

There must be somewhere in the state or in society power to establish standards of professional conduct with responsibility for enforcing them. It is easy to understand the practical failure of the courts in this field. And it is too delicate a matter for legislative control. An enacted code of rules would merely invite unethical lawyers to devise loopholes in the law.

There remains, then, the matter of professional self-regulation which in other countries has served for centuries to develop and maintain bars which, compared with ours, are free from censure.

As a matter of fact, when the older tradition failed, the bar of the typical state began to move instinctively toward the principle of self-discipline through organization. This movement was slow to begin but has been continuous for forty years and recently

has been accelerated by a conviction that the golden age has been succeeded by an age of brass. There are strong indications at this time that the bar is working its way out of chaos and that the future will see conditions very much better than those now prevailing. It is the purpose of this article to trace this development.

EARLY ATTEMPTS TO ORGANIZE THE BAR

For fully half our national history there were practically no attempts to organize the bar. The first associations arose in the larger cities, and then, as means for travel were improved and acquaintanceship was extended, state-wide association began. We do not pretend that the avowed purpose was to maintain standards. The leading motive was purely social. The bar was not immune from the modern instinct for organization, though somewhat resistant. There was also the need and the opportunity for establishing honors to mark professional success, something to confer and something to strive for.

An essential need was that of preserving standards, even though unrecognized at the inception of the movement. For lawyers of social inclination and professional pride who joined associations were thus enabled to separate themselves from the unorganized part of the profession upon which public suspicion and reproach rested. Unable to compel a fellow practitioner to be ethical, or even decent, the conscientious lawyer could at least walk on the other side of the street. Perhaps this was done to escape responsibility, but its actual effect was to assume it.

Even the loose and meager association afforded a point for effort. A responsible profession was evolving like a planet from nebular chaos. And

having presumed, in a measure, to stand for the profession, the associations had perforce to devise means for acquitting themselves.

In 1878 there were eight city and eight state bar associations in twelve states. In this year the American Bar Association was formed by the meeting of seventy-five lawyers residing in twenty-one states. There were then 60,000 lawyers in the United States.

In 1921 the American Bar Association reached a membership of 16,000. For a number of years every state except Delaware has had its state bar association. Similar bodies exist in Alaska, Hawaii, Porto Rico and the Far East as parts of the system. Over 800 city and county associations are listed by the Conference of Bar Association Delegates, a *liason* body created in 1916 by the American Bar Association.

THE LOCAL ASSOCIATIONS

There is a remarkable similarity among local associations. In all of them membership is open to any lawyer not especially subject to objection. (In the southern states, and in most northern states, Negro lawyers and white lawyers associated with them in practice, are excluded, a reservation which illustrates very well the social basis of organization.) Practically all are seeking growth. There is nowhere any organic relation between the state and local associations, or the state and national, except that in Washington recently the state association has been accepting the entire membership of local associations which conform to its requirements. Elsewhere, a lawyer may belong to any one, or any two, or to all three types in this hierarchy.

The interests of the various associations, as shown by the titles of addresses delivered, is vague and diffuse. Papers are read on trial by jury, on

John Marshall and Daniel Webster, the lawyer's oath and the Monroe Doctrine. There is a disposition to take an interest in the development of law, especially through legislation. Decisions are rarely analyzed or criticized. In many of the local associations the annual or quarterly dinner transcends all other activities. In small cities the local association is perfunctory, rarely meeting except to deplore a death or honor a judge.

In some of the larger cities the associations have for a long time been engaged in definite useful activities. The Association of the Bar of the City of New York is the oldest and strongest. For over eighteen years it has maintained a salaried force to prosecute delinquent members of the profession. The New York County Lawyers' Association has done similar work and in some years the two bodies have devoted \$25,000 to this odious work.

THE LEGAL ETHICS CLINIC

The latter body originated the legal ethics clinic, which is one of the most significant movements in the entire history of the American bar. It grew out of the realization that many minor infractions of standards were due more to ignorance than intention. The development of business was changing the nature of the lawyer's services and the profession was becoming flooded with half-educated young men who had no means for acquiring the professional point of view. Spurred on by necessity these young men often overstepped ethical lines without being aware of it. Not only this, but new situations were constantly arising to which well-informed and conscientious lawyers hesitated to apply established principles, on the theory that no man is a safe judge of his own interests.

So a committee, headed by Mr. Charles A. Boston,¹ was created to answer questions and, through the determination of nice points based upon actual facts and the wide publication of questions and answers, a common law of ethics was evolved, which is worth more than a thousand hortative addresses on the sacredness of the lawyer's oath. The success of the legal ethics clinic illustrates very well how needs and responsibilities may be met when organic means exist. The determination of ethical rules is safer in the hands of the bar than in the hands of judges. There is always danger that judicial control may infringe the needed independence of the bar. External control from any source must be resisted on general principles. But when the profession itself determines standards the work is done by those whose personal standards are high and who place the welfare of the bar ahead of any individual interests.

The legal clinic idea has spread to Illinois and will before long be a familiar activity in many states, with a central agency under the auspices of the American Bar Association. It is not directly designed to prevent willful misconduct, but it has a profound influence, notwithstanding. It enables all self-respecting lawyers scrupulously to avoid the appearance of indifference to ethics; it creates a norm of conduct along the frontier of doubtful deportment; it makes for a safe ceremonial; and in all these respects it tends to differentiate the ethical practitioners from the unethical. It throws the burden on the unethical to prove that they are not downright evil.

It is, of course, almost a hopeless thing to take a regiment of raw recruits every year and whip them into

professional discipline, even through a grievance committee and a legal ethics clinic. The work thus far done has helped, as indicated by the fact that the character of offenses is becoming less grievous, but after all it is more like bailing the boat than stopping the leak. With the low requirements for admission, the bar is receiving youths devoid of culture, because it is easier for such young men to gratify their ambitions in this way than to aspire to professions which require longer preparation. The bar has not been able to compete with the engineering profession, to take a conspicuous example, in attracting men of superior qualifications and training.

The Chicago Bar Association is now devoting about \$10,000 a year to prosecuting delinquents in support of its grievance committee work.

Local bar associations at times interest themselves in securing the election of judges. That judges should ever owe anything to lawyers is obviously unfortunate, but under our system of judicial selection it is inevitable, and it is far better that the obligation should be to associations working in the open than to individual lawyers. The bar as a whole always wants able and fair judges. In Wisconsin the bar, working in an informal manner, has exerted a powerful influence for a generation in opposition to party appointments and nominations, and it has been, on the whole, a worthy influence. In Colorado an elaborate system of bar primaries is employed to guide voters. The Chicago Bar Association has chiefly justified its existence in the public mind by similar effort, and in 1921 it literally saved an entire bench of twenty judges by fighting a powerful political machine which needed only the judiciary to complete its grip upon city and state government.

¹Since its organization, Mr. Boston, Mr. Henry W. Jessup and Mr. Julius Henry Cohen have served continuously in its membership.

THE STATE ASSOCIATIONS

The state associations are strikingly similar in structure but vary in activity and influence. Their average membership does not exceed one-fourth of the bar. Except in one or two states they meet but once a year, and usually for two days. The president of a state association exercises considerable power through making up a program and appointing committees but, as presidents never serve for more than one year, there is little continuity of influence. Attendance at meetings is pitifully small. The casual attendants exert little influence because they are almost unknown and do not themselves understand methods of work. It is usually difficult to extend membership and collect dues. There is little regulation of the profession. The state body is too remote, its meetings too infrequent, and its funds insufficient. It does not work in explicit coördination with local associations.

The majority of its members never attend meetings and so never have any genuine sense of participating in the duties or responsibilities of the association. In consequence, the organization is kept going by the small clique which has sufficient instinct for cohesion to attend meetings and do the required work. The clique control is not to be blamed under the conditions. It is the inevitable consequence of this loose and partial organization. And yet it is frequently made an excuse by acceptable lawyers for refusing to join.

THE AMERICAN BAR ASSOCIATION

It is not easy to give a true impression of the American Bar Association in limited space. The theory of exclusiveness controlled for a long time, and still exists in the minds of some of the older members, but the Association

has grown and expanded to meet imminent needs until it has become the representative body of the entire profession.

Thirty-one years ago the Association called into being the Conference of Commissioners on Uniform State Laws and still stands *in loco parentis* to the Conference, which has performed a notable service. From time to time special committees were created and some of them became standing committees and then sections. There are now seven sections which greatly amplify the work of the Association and afford means for intensive effort in technical fields. Members can register in any section and participate in its work, the only limitation being that imposed by conflicts of hours on the program.

So the American Bar Association has gradually accepted heavy responsibilities and, in a measure, has created the machinery for discharging the attendant duties. The general sessions strive to entertain, while the committees and sections engage in serious work, largely in the field of legislation and substantive law.

The trouble with the institution is that it has preserved the town-meeting form of government after becoming continental in scope and membership. Grave danger attaches to this situation. Serious decisions are submitted to voting audiences which vary in numbers and personnel from hour to hour. At one time the question of Negro membership threatened disruption. Later, an attempt to align the Association against the prohibition and suffrage amendments was beaten by only a few votes, when its success would probably have cost the Association heavily. This possibility of things going suddenly awry has necessitated a very close control by the executive committee. This is the familiar story

of pure democracy gravitating, from its very helplessness, into an oligarchy.

An attempt was made (1913-1916) by a special committee, headed by Col. John H. Wigmore, to reform the organization and create a representative control. It was proposed to unify membership in the state and national associations and restrict legislation to accredited delegates apportioned among the state memberships. The time was not ripe for such a profound change but Mr. Elihu Root, then president, created as a short forward step the Conference of Bar Association Delegates. This body is composed of five delegates from the American Bar Association, three from each state association, and two from each local. As there are about 800 of the last-named kind the Conference would be unwieldy if all should participate. Actual attendance in 1921 was by 210 delegates representing 42 state and 76 local associations.

The Conference became a section in 1919, when there was a revision of constitution; as such it receives an appropriation for its work. Its field is deemed to embrace all matters affecting the profession. This gives it substantially the field in which the organic bars of other nations function. Its range of topics has embraced unlawful practice of the law, bar organization, participation in judicial selection and professional ethics. This is a clear demarcation of field from the topics of national policy, legislation and substantive law which largely engross the attention of the parent organization.

This is not so much because the Association did not interest itself in a way in these subjects as that the Conference, being a representative body, afforded better means for making conclusions effective. It early showed the characteristics of a representative

body; it tackled its problems with a view to accomplishment; it was not lured by sentimental or rhetorical considerations.

After several years of preparation the American Bar Association in 1908 adopted its Canons of Ethics.² There had been some previous formulation of canons by state associations but the action then taken gave great impetus and within a few years the state associations, with few exceptions, adopted the uniform draft.

THE NATURE OF THE LEGAL PROFESSION

This sketch of the state of organization at this time has appeared necessary as a basis for consideration of the fields in which organization should work. The lawyer is a creature of the state. There is no inherent right on the part of any person to act as lawyer—to advise or to plead causes for hire. But there is a social necessity for such services and the state meets the need by conferring on certain selected individuals the privilege of practising law and forbids others to compete. The practice of law is so much a public or political function that lawyers are essentially public officers, although they do not draw public pay. The profession constitutes, therefore, a body politic, in this respect differing from other professions.

Americans cannot conceive of a body politic standing independent of government, like the bar of Belgium, for instance. In most states the bar is constituted by force of statute and subject to legislative control. But in a few states the courts have held that the bar is a part of the judiciary and hence legislation affecting it is unconstitutional because of interfering with a coördinate and independent branch of government. These variant

² Reprinted on page 254.

theories appear to differ but little in actual practice.

The bar has powers and, consequently, duties. Its powers are quite clearly defined; its duties less clearly. Its means for performing these duties are slowly evolving.

It is obvious that the proper functioning of the bar, with its complex, delicate and immensely important duties, cannot depend upon compulsion. As is the case with judges, lawyers must be presumed to act mainly from intelligent self-interest and high moral perception, and be amenable to public opinion. In the absence of adequate learning and staunch moral fiber no conceivable power could compel faithful and intelligent service. No legislature could force a recreant bar to serve efficiently. The courts have a little power, but not one of continuous regulation, and judicial control cannot take the place of spontaneous good intentions. Regulation, if there be any, must proceed from the profession itself; it must be instinctive and automatic.

THE MISSION OF LEGAL ETHICS

This whole matter of ethics is vastly more difficult than is implied by the punishment of acts which are *malum per se*. The public generally is most concerned with mere honesty and wants only to hold the lawyer to the standard necessary for the lay fiduciary. Unfortunately, an element in the public enjoys seeing a lawyer employ every weapon in the arsenal and is inclined to judge solely by success in winning the particular battle. But the public suffers a thousand times more from less conspicuous infractions of ethics than from plain dishonesty. The lawyer has it in his power to provoke litigation, to keep it alive indefinitely and, in a hundred ways, to bring the administration of justice into disrepute, and

yet not commit any offense in the criminal code or be thought unfaithful to his profession.

Nor is the public in a position to be critical concerning ability and training. It must largely take its lawyers at their own professed estimate. A very ignorant lawyer can easily impress a jury or the audience of a courtroom by a show of erudition. And lack of technical skill may cause untold mischief, possibly after the lapse of years.

This is the situation in a measure with respect to all professions. Their practitioners deal in mysteries. They are not safely judged except by their colleagues. And that is why there must be ethical standards for professions.

This essential ignorance and helplessness on the part of the public tends strongly to cause a serious misunderstanding of the most important mission of ethical rules. There is a hasty belief that outsiders, able to work for less pay, are prevented from doing some of the lawyer's work in order to save fees for the lawyer. There is also the assumption that ethical rules exist largely to hamper the young practitioner and prevent him from competing with his elders. It is easy to refute the former assumption, for anybody can be made to understand that lay advice is not only hazardous but that it has back of it no responsibility. A lawyer's reputation is his capital which stands behind his opinions. The latter assumption is a little more involved. Indeed, it is strange that so many lawyers themselves cannot explain why advertising is tabu among lawyers. That is, they cannot formulate a philosophic reason based upon social necessity.

The reason lies in the credulity and ignorance of the public. If advertising is permitted, it is the ability to write a persuasive advertisement that

will gauge success, rather than legal ability. If solicitation of clients is permitted, there is no end whatsoever to competition in solicitation. If ambulance chasing and hospital solicitation are permitted, the public falls a victim to the least ethical, the least conscientious, the least honest of lawyers.

With these coarser evils still menacing the profession it is too early to throw light on such self-recommendation as is gained through candidacy for office, through holding positions of honor in fraternities and public associations of all kinds. But eventually even these less dangerous and more difficult matters may be brought within ethical regulation.

The need now, and for a long time past, has been imperative to expel lawyers who connive at the fixing of witnesses, the bribing of jurors and court officers and the solicitation of personal injury suits. The situation, perhaps, is not as bad as it has been, but in many places it is still deplorable. These are the raw instances of misconduct, found largely in that portion of the bar which specializes in the defense of criminals. They could be curbed by the courts. In Detroit, when a unified criminal court was established in 1920, the shyster was tamed in a single day. Criminal defense has largely shifted to reputable practitioners in that city. But, generally, the judges are too dependent to exert any controlling influence, and in many inferior city courts they are themselves recruited from a doubtful element.

A STEP IN STATE EXAMINING BOARDS

Good service depends on knowledge as well as character. A lack of either essential threatens a loss of rights or the miscarriage of justice. Legal knowledge can be quite accurately

tested by examinations and no person should be admitted to practice until he has given proof of a degree of mastery of the law. But until the last twenty or thirty years there was an almost universal disposition to admit any person, not notoriously unfit, who had read a few law books. Traditionally, admission was by order of court after a committee of the bar had given a perfunctory examination. In most states this laxity on the part of courts led to reform through legislation which created examining boards.

The older indifference to the subject gradually came into conflict with the growing sense that the profession was losing ground in critical estimates. Yet it could point to its aggrandizements of power in extra-professional activities, such as legislating, holding public office, and manipulating political machinery. Probably this extra-professional power itself occasioned some alarm and fostered the criticism which induced the bar to take note of its direction of drift.

The creation of state examining boards marked a great step forward, for it centralized responsibility in officers who were impersonal and relatively independent. The state supreme court was relieved of a duty which it could not easily perform. The bar, without realizing the fact, had gained possession of the gateway to the profession.

STANDARDS FOR LEGAL EDUCATION

Beginning fifty years and more ago, law schools arose in this country in response to the popular concern for legal education in a polity which gave the lawyer such a heavy rôle. The schools have increased and developed along two main lines. The endowed schools and those supported by state funds have been free to impose higher standards of scholarship. The stand-

ard among them today is three years of technical study following two of general college study, though not all have yet reached this level. As their requirements for admission and graduation were increased, the proprietary schools had left to them a larger field and one sufficiently lucrative to call into being a number of such institutions. Competition between them induces considerable advertising, which tends to promote legal study.

While about 40 per cent of the law schools provide excellent courses, and it is possible for the exceptional student to get a fair education in an inferior school, the result generally has not been what is needed. A degree is nowhere a requisite to admission to practice and in many states the examinations are still too easy. The well-schooled college graduates are in a minority among those coming to the bar. In some states a high school education is not required and in no state is a single year in college necessary. We have now, as always, a great many lawyers who are ethically and professionally capable, but who have no general learning. Their ignorance of political science is a national misfortune. For a scientific view of human affairs they substitute and cling to outworn legal dogmas. For many of them history began with the discovery of America. The dogmatic, rather than the scientific view of law, dominates the profession and the bench.

For nearly thirty years the American Bar Association struggled with the problems involved in educational requirements. Gradually the tie between good education and good morals became obvious. In 1921 the Association made its pronouncement. A committee, headed by Mr. Elihu Root, reported a resolution in favor of two years of study in a college and three years in a law school as the minimum

standard for admission to practice. After notable debates, the standard was adopted in the Section on Legal Education and then by the Association by large majorities.

The resolution provided also for the calling of a national conference to consider means for establishing the standard by force of law or supreme court rule in the various states. The Conference of Bar Association Delegates afforded the needed machinery and a meeting was called for February, 1922, in the city of Washington. A great deal of hostility must be overcome before there can be any general acceptance of the standard. Opposition comes from lawyers who look upon educational standards as a reflection on their own shortcomings, and from the proprietary schools. The latter, however, conceded most of the fight at the start, making a stand only for an "equivalent" to two years of college study. Victory will come first in states which have no proprietary schools but good public universities.

REGULATION OF CONDUCT BY THE BAR ITSELF

There remains, finally, the matter of continuing regulation of conduct by the bar itself. No other agency can avail. Nor can an unorganized or partially organized bar accomplish this. A good start has been made by the voluntary, exclusive, minority associations. But very generally throughout the country disciplinary work is weak and uncertain. In small centers the ethically sensitive are too close to offenders to be able to grip the situation. It is safer to pass by on the other side. In the large cities the occasional penalties imposed are too rare to be strongly deterrent, and they lack the needed direction toward the delicate relations of attorney to client and advocate to judge.

There would be little reason for optimism on this score were it not for a movement for inclusive bar organization fathered by the Conference of Bar Association Delegates. In 1920 a committee, headed by Judge Clarence N. Goodwin, reported a plan for organizing the bar of a state on an inclusive and democratic basis. It starts with the proposition that the bar constitutes a body politic and that it is necessary only to provide for it a simple scheme of government by statute or by rule of the state supreme court. It is proposed that every practising lawyer in the state be required to contribute annually to the expense of the association and in return for that be given an equal and practical share in its management. This control is effectuated by requiring the lawyers in each district, or circuit, to elect, by mail ballots, their representative on the board of governors. This board is to exercise disciplinary powers and such other powers as may be pertinent. It can create grievance committees for cities, or counties or districts and provide means for their work.

It would be the duty of such a committee to investigate all complaints, either from laymen or lawyers, and to take such action as may be needed. The protection of the innocent is quite as important as the punishment of the delinquent. This can be done more effectually by a committee than by any court, which must necessarily act publicly. Its hearings would be quasi-judicial and it would determine the facts and make a record. The committee would also have the power to compel the attendance of witnesses and the production of evidence. The accused, if found guilty of improper conduct, could accept the penalty imposed, resign, or demand review by the supreme court.

This would afford the ideal machinery, impersonal in character, sustained by a representative state body, able to protect innocent persons through privacy and to discipline offenders by publicity. The courts would accept assistance of this kind. Such a system means democratic self-government and self-discipline on the part of the bar. Every lawyer is given equal representation with no requirement save that he pay the annual dues, in default of which he must cease practising. There can be under such a plan no large element escaping responsibility by refusing to do its share, and no element contributing without a genuine voice in affairs. The governors would inevitably be representative of the best elements in the profession; not so impossibly lofty as the reformers, but assuredly jealous for the reputation of the profession thus placed in their keeping.

At the 1921 meeting of the Conference of Delegates, Chairman Goodwin was able to report that a large number of state associations were interested in the proposal and that in several states bills had been introduced in legislature. In North Dakota the first legislative result was secured. The presumption is that the voluntary associations will merge in the inclusive bar and that their social activities and interest in general legal topics will continue as formerly. This is not especially important because the existing associations might retain their present work and selective memberships, leaving to the organic bodies the functions which they are not adapted to exercise.

POSSIBILITIES FOR LAW TEACHERS

An account of the American bar would be incomplete without reference to the growing importance of the professional law school teachers. The practising lawyer who teaches occa-

sionally fills a useful part and will not soon be displaced, but there was little improvement in legal education until it was taken over by lawyers who had no conflicting interests. The past generation has seen the development in this country of the best law schools in the world, side by side with some of the least worthy, in this respect paralleling the profession, which also reaches the two extremes. Probably our best lawyers are the ablest lawyers the world has ever seen, and there can be little doubt that our worst lawyers are far below the lowest in other civilized countries. Nowhere else is there a class of lawyers comparable with the shysters of the criminal courts of this country.

To return to the professional teachers; they are doing vastly more than creating a method of pedagogy. Their detachment from clients peculiarly fits them to deal abstractly with law. Their critique of decisions is wholesome and helps to systematize the ideas of practitioners and judges. They would do well to hold themselves less aloof from legislation, which is the most conspicuous phenomenon of modern times.

There is reason for thinking that this teaching class, constituting now, with the practitioners and judges, a third estate in the profession, is to perform a work far beyond present conceptions. We are drifting toward a situation which calls for some heroic work in respect to law. To some it appears as a "restatement" of the law; to some, as a partial codification; to others, scientific legislation. Heretofore there has been no agency for such great service. It is becoming evident that the law teachers will be best fitted to function in this field. And to this end there is needed imperatively a study of jurisprudence in order that a lasting foundation may be laid for the

most difficult and far-reaching work that lawyers have ever undertaken.

PRESENT THEORIES AND SPECULATIONS

It is apparent that this article could not have been written even a year or two ago. There are at present other theories and speculations which deserve consideration. The lawyer working under annual salary, whether for a municipal corporation, a bank, trust company, insurance company or large firm of lawyers, presents a problem as yet hardly realized. Such a lawyer cannot be as closely attached to the court in which he practises as to his employer. This is not an ideal situation. Since responsibility for ethical conduct must rest upon the lawyer's personal reputation he should be a free agent, subject only to professional guidance and surveillance, and free from moral overstrain. Nor should lay agencies participate, directly or indirectly, in the practice of law, either by advising clients or by prosecuting their suits, because they cannot, like the individual lawyer, offer the sanctity of a personal reputation which compares with the ready assets which our banking laws require. A corporation cannot be disbarred.

The cost of a thorough legal education is worrying some persons who hold that it will bar applicants of small means and make for a plutocratic bar. They propose to divide the profession into two classes: on one side, thoroughly educated lawyers with general powers and functions, and on the other, partly educated lawyers with limited powers. The suggestion that the less educated might suffice to counsel the poor is so dangerous that it must be condemned outright. The poor, the ignorant, the unsophisticated most need all the protection that can be thrown about them. Low grade legal

services are emphatically not the cheapest.

Worry about improving legal education derives partly from the belief that the inferior law schools are too strongly entrenched to be ousted or reformed. This remains to be seen. As for a division of the bar, it is submitted that the only division conceivable is one between counselors and advocates. But this cannot grow out of two kinds of law schools. It is possible that in time advocacy will emerge as a recognized specialization in a bar of greater solidarity than now exists, just as the College of Surgeons emerged from the American Medical Society. But in such case the advocate would have to rely on superior ability to try cases. There is no prospect that the general practitioner will ever be deprived of his traditional power to conduct litigation.

There is another way in which these difficulties might be resolved. It lies in encouraging the study of law, not with a view to serve clients, but to fill the places now taken by "house lawyers" in private employment. A new designation would have to be found for this class. They would not be

entitled to perform any of the essential functions of the lawyer. They would be ineligible to judicial office. Their education would not be a matter of great public concern. This would preserve a field for inferior law schools, subject to competition from the universities which have added special law courses for students in commerce, transportation and executive training. It is a good thing to have a knowledge of law widespread in the community, providing the rights of clients are not jeopardized. This "outer bar" would be as favorably situated to hold public offices as is the lawyer himself and thus the imagined danger of an aristocracy of brains and knowledge monopolizing statecraft and legislation would be laid.

But whatever the outcome we must aim to establish such standards of education and ethics that the word lawyer will always and everywhere signify genuine competence and absolute fidelity. This is no mere counsel of perfection. It is entirely practical. And as we progress we will be looking toward a golden age when the legal profession will be useful and respected to a degree now barely foreshadowed.

Unlawful Practice of the Law Must Be Prevented

By JULIUS HENRY COHEN

Counsellor-at-Law, New York City, Author of *Law and Order in Industry*, and *The Law: Business or Profession*; Chairman, Committee on Unlawful Practice of the Law and Member, Committee on Professional Ethics, New York County Lawyers' Association.*

CHESTER S. LORD, Chancellor of the Board of Regents of the University of the State of New York,

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said in an address to the Chamber of Commerce of the State of New York on February second last: "Quack doctors and quack dentists have been driven from the state. The regents are called on constantly to prosecute illegal practitioners and to revoke licenses for law violation."

He reminded us that "not so very long ago no educational test was re-

quired of a dentist. Young men entered offices and learned the business by experience. Some of them became very good dentists toward the end of their lives but meantime their patients were the victims of their search for experience." An abscess in a tooth resulting from a poor filling is a pretty dangerous thing and something against which we all agree the unsuspecting patient should be protected. No one questions the wisdom of regulating the practice of medicine or the practice of pharmacy, and we have come to recognize that so important to health is proper plumbing that we permit only licensed plumbers to practise. The care of horses and cows and other cattle we regard of sufficient consequence to permit only licensed veterinarians to practise. Now it came to pass in the very early history of civilization that contact with the law required knowledge and advice, and as the ignorant are easily misled by quacks and charlatans, the state undertook to make sure that those who applied such knowledge and gave such advice should be qualified.

THE SOCIAL NEED FOR A BAR

It was easy to adopt this principle in the case of the lawyer. Historically, he owes his position to the fact that he is an "officer of the court," and, under the court, subject always to discipline for improper conduct.¹ Where there is no licensed bar, there is trickery and chicanery. In China there is no licensed bar, but there are lawyers. They are called "rascals of the lawsuit" (chung-guen).² They undertake to furnish legal advice and assistance to the litigant, and, incidentally, to capture the friendly ear of the court in behalf of the litigant. If caught, they are sent to jail. But the need for a

bar produces one, even unlicensed. For many years in our large cities the poor, especially those who came from foreign countries, where the notary public was himself a trained official competent to draw legal instruments, were the prey of notaries who drew for them not only leases and bills of sale, but wills and other documents, and undertook to give legal advice. Few of these practices now exist in New York or Kings County. With the aid of the State Industrial Board, the Committee on Unlawful Practice of the Law of the New York County Lawyers' Association and the Brooklyn Bar Association have driven them out. As Judge Crane pointed out in *People v. Alfani*, 227 N. Y. 334:

Is it only in court or in legal proceedings that danger lies from such evils? On the contrary, the danger there is at a minimum, for very little can go wrong in a court where the proceedings are public and the presiding officer is generally a man of judgment and experience. Any judge of much active work on the bench has had frequent occasion to guide the young practitioner or protect the client from the haste or folly of an older one. Not so in the office. Here the client is with his attorney alone, without the impartial supervision of a judge. Ignorance and stupidity may here create damage which the courts of the land cannot thereafter undo. Did the legislature mean to leave this field to any person out of which to make a living? Reason says no. Practising law as an attorney likewise covers the drawing of legal instruments as a business.

The Committee on Unlawful Practice of the Law of the New York County Lawyers' Association owes its existence to a study of this problem made by a special committee in the year 1914. This committee reported the conditions as they were found in New York City and stressed the need for a continuous investigatory and prosecuting agency. The work of the Committee, however, is not limited to the prosecution of notaries public and

¹ *The Law: Business or Profession?* Chapters IV, V, VI.

² *Idem*, p. 46.

individuals who pretend to be qualified, yet are not licensed to practise law, but has extended to the field of corporate endeavor. Not much argument is necessary to convince the layman that wherever special and expert skill is required, the state should protect him, as it does in the case of the dentist and the druggist and the doctor. But it is the common view that it does not require much skill to draw a lease or a contract or a will. Writers like Graham Wallas, for example, wonder why one should be obliged to pay a fee to a lawyer for drawing an instrument when forms could be easily prepared by the state that laymen could fill in.

CARELESS LEGAL WORK A CAUSE OF LITIGATION

Of course, every lawyer knows how dangerous a doctrine this is, and yet how profitable to the bar acceptance of it becomes, for it is just the careless drawing of legal documents that makes for litigation. The New York State Bar Association in the year 1914 made a study of the causes of preventable litigation and discovered that the largest percentage of litigation came through improperly drawn contracts and wills. Too often even capable business men treat the drawing of a lease as though it were a purely formal matter, taking the advice of a real estate broker or a justice of the peace. We are all so slipshod generally in this country that any effort to use language carefully and with definite meaning is looked upon with disdain. In his interesting book, *The Behavior of Crowds*, Everett Dean Martin traces the popular contempt for knowledge to the "personal inferiority complex", and the desire of the crowd to put everyone on a level. Whether this is true or not, it is the fact that only the person who is himself trained in some art appreciates the value of training

in others. It is the experienced business man who realizes the value of the lawyer's care and advice, not the ignorant one.

I once heard Chancellor Day of the Syracuse University at a public dinner arouse an audience of business men to enthusiasm with the suggestion that if only we sent business men to Congress instead of lawyers, we should be much better off. He was followed by Martin Littleton, who at once suggested that this would be entirely satisfactory to the lawyers, for, if the business men would make the laws and leave to the lawyers the litigation that would follow, it would be a splendid division of labor. And it is true of legal documents, as well as of legislation that the slipshod, careless and indifferent use of language only leads to the employment of lawyers.

CORPORATIONS AND TRUST COMPANIES IN LEGAL CAPACITY

In the case of the notaries, the poor and the weak are preyed upon. But what of the corporations that draw deeds and wills and other documents? Are they not expert, perhaps more expert than the lawyer? Doctor Frank Crane, writing in the *Globe* the other day, said: "Even able lawyers have been known to make wills that would not stand. For this reason trust companies are coming more and more in favor among testators who desire to make sure that their property will be disposed of according to their wishes."

But the trust companies of New York City have come to realize that this is wrong doctrine. They subsist upon the confidence of the public in the fiduciary relationship. The trust company is something that somebody trusts. The trustee is one who holds property in trust for another. Now, it is precisely that fiduciary principle which the lawyer must apply almost

every moment of his work. He is not only the trustee of property. He is the trustee of vital things. He knows the secrets of the client. He knows intimately the family relations. He must be trusted to keep them confidential. The dentist may leave you with an abscess in your tooth that may, it is true, ultimately lead to your destruction, but, after all, that is only a physical worry. The lawyer who betrays his trust may leave you with an abscess that eats into the very heart of your family life after you are dead and gone. Never before in the history of the bar has so much dependence been placed upon the confidence which is reposed in lawyers. Not an enterprise of any consequence, not a relationship of any pecuniary importance is formulated without the participation in some way of the lawyer, and to draw the documents requires a knowledge of the human factors involved. We are very far away in actual life from Quirk, Gammon and Snap and their scheme with Tiddlebat Titmouse, though if the layman needs instruction on this matter of what happens when the lawyer fails to apply the high standards of his profession and sets out to betray the trust reposed in him, he need but read Warren's *Ten Thousand a Year*.

THE FIDUCIARY PRINCIPLE

It is the *fiduciary principle*, then, which is the breath of life of the profession. It is also the breath of life of the trust company. The New York City trust companies have learned, therefore, that the fiduciary principle is not preserved when the trust company draws the will for the proposed client. It may, indeed, act as trustee of his property. It may, indeed, counsel him on business matters. But when it comes to drawing his will, or, for that matter, the deed of trust by which the trust company is to be his trustee, the

trust company lawyer cannot act both for the trust company and the maker of the will without violating the fiduciary principle. *No man can serve two masters.* It is precisely at this point that the differentiation between *business* and *profession* occurs. The drawing of a will is a human thing. It is not a mere matter of phraseology and typewriting. It involves intimate knowledge of family relations, an inner grasp of the secrets of him who is about to prepare a record of his last wishes. What he does by this document may mar or make those dependent upon him and may mar or make his own record. Nothing short of the completest confidence and disclosure will do: therefore, the direct personal relationship between attorney and client; therefore, the necessity for preventing or precluding a conflict of duties.

In the analysis of the philosophy underlying these relations, it is a very significant thing that the Committee on Professional Ethics and the Committee on Unlawful Practice of the New York County Lawyers' Association are acting on the same fundamental principles. In Question and Answer No. 201 the Committee on Professional Ethics said:

In the opinion of the Committee is there any professional impropriety on the part of a lawyer entering into the formation of a partnership with a certified public accountant for the practice of public accounting and tax report service?

A majority of the Committee is of the opinion that the implication of the arrangement and of the question is that the partnership furnishes the legal services of the lawyer to its customers; they consider that such exploitation of professional services for the profit of or by those who are not entitled to practice law (in whatever guise cloaked) is not professionally proper, because it admits to the emoluments of the office those who are not entitled to its privileges or bound by its discipline or amenable to summary correction, and affords an opportunity to the layman to give legal advice.

The collection agency thrives on the solicitation and advertising for business. The lawyer may not solicit or advertise. What this means is fully disclosed in the discussions in the two cases of *Matter of Schwarz*, 175 App. Div. 335, and *Matter of Schwarz*, 195 App. Div. 194. When the lawyer really begins to advertise as business men advertise to get business, he lowers himself and his profession. He impairs the fiduciary principle. If he is not to advertise or solicit directly, what shall we say then of the lay agency which does the advertising and makes the profit, utilizing the lawyer as a mere employe, selling his service without any direct responsibility between him and the client.

DUTY OF THE BAR TO SAFEGUARD THE COMMUNITY

It is for these reasons that the bar carries the responsibility of preventing the so-called practice of the law by corporations and laymen. It is no answer to say that not all lawyers are properly equipped, or that not all lawyers are men who observe the fiduciary principle. It is the duty of

the bar to see that lawyers are properly equipped and that all do observe the fiduciary principle. This duty, let it be frankly admitted, has not been fully performed by the bar. To meet this duty fully it is now organizing. It must take steps to see that a bar adequately trained, of moral character, performs the service to the community; but it must also perform the duty of safeguarding the community from those who have not even the present limited training required for admission to the bar, and it must also protect the community from itself treating the lawyer's services as a "jobber treats merchandise." When that happens, the lawyer as a professional man goes. But with him goes the *fiduciary principle*, so vital and so essential for the protection of the community in the relation between lawyer and client. The doctrine of *caveat emptor* will not give to the community the protection it must have in such a relationship. Only the highest and best standards will do. No others will suffice. The layman is not able to protect himself. The community must do it for him.

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A most illuminating compendium of the subject, with an introduction by Professor John E. Wigmore. Contains profuse citations and an extensive bibliography; also, the Canons of Ethics of the American Bar Association.

Cases and Other Authorities on Legal Ethics, by George P. Costigan, Jr., Professor of Law in Northwestern University. Pp. 616. St. Paul: West Publishing Company, 1917.

This is one of the West Publishing Company's Case Book Series, published under

the editorship of Professor Wm. R. Vance of the Yale Law School. Beside leading cases on the conduct of lawyers adjudicated in the courts, there is included the Canons of Ethics of the American Bar Association, and also those of the Boston Bar Association; also, the classic Fifty Resolutions of David Hoffman and many of the answers to questions on legal ethics propounded to the Committee on Professional Ethics of the New York County Lawyers' Association. Quotations from the published opinions of many lawyers on various questions of legal ethics are also given.

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In addition to this list of larger works dealing with the subject of "Legal Ethics" is appended the following list of articles and addresses on the subject printed in legal and other publications.

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The Professional Organizations, Training and Ethical Codes of Physicians, Dentists, Nurses and Pharmacists

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THE medical profession may be justly so termed because its "prime object is the service it can render to humanity." Its members have attainments in special knowledge and have as a vocation the application of this knowledge for the benefit of others. Reward or financial gain is, as a general rule, a subordinate consideration. Thousands of physicians give largely and nobly of their time and skill to the poor. The most enlightened physicians of today are advancing preventive medicine, which tends to do away with a great deal of medical practice. Those who regularly render a large part of their services to their fellowmen gratuitously and are constantly striving to eradicate their own means of livelihood by preventive medicine are nearing the pinnacle of idealism in their professed object—the service they can render humanity.

THE ORGANIZATIONS OF PHYSICIANS

A most noted characteristic of modern medicine is a coöperation which is rapidly becoming international in extent. Group organization in the profession is widespread, from the small hospital staff conferences through the numerous and various societies of specialists, county societies, and state societies to the national organizations.

The hospital staff conferences are of great value to the staff and consequently to the patients. The various hospital staffs govern their own meetings. Usually, records of many interesting

or puzzling cases are reviewed and thoroughly discussed; treatment, whether operative or non-operative, is analyzed; results are noted. These conferences acquaint the staff with the various activities of the hospital, many of which lie beyond their individual line of medical work, tend to create a close coöperation among the staff members, and often between the staff and the hospital administration, and always stimulate individual endeavor. These staff meetings are required by the rules of hospital standardization promulgated by the American Medical Association and the American College of Surgeons.

THE COUNTY SOCIETY

The county medical societies form the local divisions of the state medical societies; the latter, combined, form the American Medical Association, the national body.

The Philadelphia County Society, as an example, was instituted in 1849 and incorporated under the laws of the state of Pennsylvania, in 1877. Membership is limited to graduates "of an institution legally authorized to confer the degree of doctor of medicine" who must be legally qualified to practise medicine in the state of Pennsylvania and must be citizens of the United States. The names of applicants for membership are read at a stated meeting of the Society, published twice, and then voted upon by a Board of Censors. A member of any other county society affiliated with the American Medical

Association may be transferred to the Philadelphia County Society. The county society is the only portal of entrance to the state and national societies.

The rules of membership provide that "any physician who shall procure a patent for a remedy or for an instrument of surgery, or who sells or is interested in the sale of patented remedies or nostrums, or shall give a certificate in favor of a patented or proprietary remedy or patented instrument, or who shall enter into agreement to receive pecuniary compensation or patronage for sending prescriptions to any apothecary, shall be disqualified from becoming a member; or if already a member, upon conviction of such offense shall be *ipso facto* deprived of membership."

The general business of the Society is in charge of a Board of Directors. From its membership the following committees are appointed: (a) a Committee of Scientific Program, which has charge of the scientific programs; (b) a Finance Committee, which has supervision of the funds of the Society; (c) a Committee on Medical Defense, which looks after the defense of members in suits for alleged malpractice; (d) a Committee on Publication, which has charge of the publications of the Society; (e) a Committee on Branch Societies, which looks after and reports on the several branch societies.

"Stated meetings of the Society," it is ordered, "shall be (a) business meetings, which shall be held on the third Wednesdays of January, April, June and October, respectively, at 8.30 o'clock p.m.; (b) scientific meetings which shall be held on the second and fourth Wednesdays of each month from September to June, both inclusive, at 8.30 o'clock, p.m."

Branches of the Society may be formed for the transaction of scientific

business. The annual dues of the Society are \$8.

The code of ethics is that of the American Medical Association,¹ violation of which subjects the offending member, upon conviction, to censure, suspension, or expulsion from the Society.

The members of the Society may be disciplined by reprimand suspension or expulsion "for the infraction of any by-law, or for acts or conduct which may be deemed disorderly or injurious to the interests of, or hostile to the objects of the Society, or for acts or conduct which may tend to lower the standard of the medical profession or of the practice of medicine, by a vote of two thirds of the members present at a business or special meeting of the Society."

All moneys of the Society are expended by previous appropriation or by special authorization of the Board of Directors.

The Philadelphia County Medical Society issues *The Weekly Roster* as its official publication.

Every state in the Union has similar county societies all subject to the Principles of Medical Ethics of the American Medical Association, each being a component part of its state society, all having similar objects and aims, the advancement of the practice of medicine and the science of medicine. Application for membership in any of the societies is volitional on the part of the medical profession; non-membership does not carry with it any penalty imposed by the profession other than the stigmata of non-membership.

THE STATE MEDICAL SOCIETY

The Medical Society of the State of Pennsylvania, which was organized in 1848 and incorporated under the laws of the state in 1890, may be used as an

¹ For this code see page 260.

example of the organizations found in every state in the country, Alaska, District of Columbia, Hawaii, Isthmian Canal Zone, Philippine Islands and Porto Rico.

The purposes of this Society, as stated in the constitution, "shall be to federate and bring into one compact organization the entire medical profession of the state of Pennsylvania; to unite with similar societies of other states to form the American Medical Association; to extend medical knowledge and advance medical science; to elevate the standard of medical education and to secure the enactment and enforcement of just medical laws; to promote friendly intercourse among physicians; to guard and foster the material interests of its members and to protect them against imposition; and to enlighten and direct public opinion in regard to the great problems of state medicine, so that the profession shall become more useful to the public in the prevention and management of disease and in prolonging and adding to the comfort of life."

Membership in the state society is limited to citizens of the United States who are members in good standing in their county medical societies and physicians who may occupy a teaching position with any college or university in the state.

The legislative power of the Society is vested in the House of Delegates, composed of one delegate from each county society for each hundred members of that society, the presidents of the county societies, the president of the State Society and the trustees. Annual meetings of the Society are held in October of each year at such place as may be determined upon by the House of Delegates.

The funds of the Society are raised by an annual assessment on each member of the several component

county societies, and paid by the county society out of the dues of its members. Out of the funds, each year, a sum not exceeding \$1 for each member is set aside as a special Medical Defense Fund to be used for the legitimate expenses of members threatened with or prosecuted for alleged malpractice. Also, a sum not to exceed \$1 is set aside each year as a Medical Benevolence Fund to be used only for the relief of pecuniary distress of sick or aged members or the parents, widows, widowers or children of deceased members.

It is the duty of the House of Delegates to foster the scientific work and spirit of the Society, to use its influence to secure and enforce all proper medical and public health legislation, to diffuse popular information in relation thereto, and to encourage graduate and research work.

The state is divided into nineteen censorial districts, each having a separate board of censors composed of members of the component county societies, whose duty it is to consider appeals from decisions of county societies by members who have been censured, suspended or expelled. The state is also divided into ten councilor districts, with one councilor for each district. Each councilor is the organizer and peacemaker for his district, visiting the counties in his territory at least once yearly for the purpose of organizing, of studying the condition of the profession, and of improving and increasing the zeal of the county society and the members. The Board of Councilors is the judicial council of the Society. It considers all questions involving the rights and standing of members, all questions of an ethical nature, and decides all questions of discipline affecting conduct of members of component county societies on which an appeal is taken from a board of

censors, with no appeal from its findings. The Board is authorized to employ a member of the bar as legal counsel for the Society.

ACTIVITIES OF STATE MEDICAL SOCIETIES

A great deal of the work of the Society is done by its committees. A Committee on Scientific Work determines the character and scope of the scientific proceedings for each session. The Committee on Public Health Legislation represents the Society in securing and enforcing legislation in the interest of public health and scientific medicine. The Committee on Society Comity and Policy keeps informed concerning matters between the Society and the American Medical Association, between this Society and the county medical societies and between the county societies and their members. The Committee on Health and Public Instruction attempts to bring together the lay people and the profession, increasing the confidence in scientifically trained physicians and uniting the public and the medical profession in a campaign for better health condition. The Committee on Benevolence has absolute and confidential jurisdiction over the distribution of such part of the Medical Benevolence Fund as may be placed in its hands. The Press Committee has general censorship over all matters for the public press in connection with the transactions of the general meetings, the scientific sections and the House of Delegates.

The following special committees of the Pennsylvania State Society carry out the purpose for which they were created, as indicated in their titles:—The Committee on Defense of Medical Research, on Promotion of Efficient Laws on Insanity, on Archives, on Physical Education, on Revision of the Constitution and By-Laws, to In-

vestigate Community Needs for Hospitals, Commission on Conservation of Vision and the Commission on Cancer.

A Board of Trustees has full charge of properties and the financial affairs of the Society. It provides for and superintends the publication of the official organ of the Society, the *Pennsylvania Medical Journal*, published monthly, and of all proceedings, transactions and memoirs of the Society.

An executive secretary organizes the medical profession for efficient action on proposed or pending legislation of interest to the public and the medical profession. He also organizes the machinery for the investigation of illegal practitioners of the healing art in the state.

The Principles of Medical Ethics of the American Medical Association² govern the conduct of members in their relation to each other and to the public.

THE AMERICAN MEDICAL ASSOCIATION

The American Medical Association was organized in 1847, and reorganized in 1901. Headquarters are in Chicago, Illinois.

"The object of this Association," states its constitution, "shall be to federate into one compact organization the medical profession of the United States, for the purpose of fostering the growth and diffusion of medical knowledge, of promoting friendly intercourse among American physicians, of safeguarding the material interests of the medical profession, of elevating the standard of medical education, of securing the enactment and enforcement of medical laws, of enlightening and directing public opinion in regard to the broad problems of state medicine, and of representing to the world the practical accomplishments of scientific medicine, with power to acquire and

² See page 260.

hold property, publish journals, etc.”

Membership is limited to such members of the state societies together with their affiliated local societies, as apply for admission. The application for membership must be accompanied by a certificate of good standing in a county society, signed by the president and secretary of that organization.

The control of the Association rests with a House of Delegates, which consists of one delegate for every 500 members of each permanently organized state or territorial medical society; one delegate from each section of the Association, and one delegate each from the Medical Department of the United States Navy, United States Army, and the United States Marine Hospital Service.

Officers of the Association are elected by the House of Delegates to serve for one year. The president is not eligible for reelection.

An annual session of the Association is held at such time and place as determined by the House of Delegates.

Funds of the Association are raised by an annual assessment on its members of not more than ten dollars, by voluntary contributions for specific objects, and from the profits of its publication. Members may be dropped from the rolls if the dues or assessments remain unpaid for one year. Funds are appropriated by the House of Delegates.

A Board of Trustees of nine members has charge of the publication of all proceedings, transactions and memoirs of the association. It appoints an editor and such assistants as are necessary for these publications, determines salaries, etc.

To expedite and systematically perform its appropriate scientific work, the Association is divided into fifteen sections, each of which is devoted to the encouragement and pursuit of

knowledge in one of the recognized branches into which the science and art of medicine are for convenience divided.

The general management of the Association is under the Board of Trustees. There are five standing committees, and as many special committees or councils as are needed fully to carry out the purposes of the Association.

The Committee of Arrangements has full charge of the annual meetings of the Association. The Judicial Council investigates and reports on all questions of a judicial character, interprets the code of ethics, etc. A Committee on Medical Legislation represents the Association in legislative matters pertaining to public health and scientific medicine. A Committee on Transportation secures special transportation facilities, rates, etc., for the members attending the annual meetings. The Council on Health and Public Instruction has in charge the instruction of the public in regard to infectious diseases and other subjects affecting the health of the community. The Council arranges for public addresses in practically every state in the Union for the instruction of the public. The Council on Medical Education and Hospitals, founded in 1904, exercises influence on medical colleges in relation both to entrance requirements and to the courses given. The work of this Council has been of the greatest benefit to the public in decreasing the number of low grade medical schools and consequently of incompetent and unscrupulous physicians. (*Vide infra*.)

The Council on Pharmacy and Chemistry (a standing committee of the Board of Trustees) investigates proprietary medicines submitted for study by manufacturers, or at the request of members of the Association, and thus puts a decided check on the exploita-

tion of the medical profession by patent medicine makers and the swindling of the people by quacks and quackery. The Council defines "proprietary articles" as any "chemical, drug, or similar preparation used in the treatment of disease, if such article is protected against free competition as to name, product, composition or process of manufacture by secrecy, patent, copyright, or in any other manner." It has adopted certain rules governing the acceptance or rejection of these articles with the "object of protecting the medical profession and the public against fraud, undesirable secrecy and objectionable advertising in connection" with such articles. The acceptable articles are published in a yearly volume, with supplements, entitled *New and Non-official Remedies*. The rejected articles are so reported with other questions of an informative nature from the journal's Bureau of Investigation, from the Council, and from the laboratory of the Association, under the heading "The Propaganda for Reform," which appears weekly in the journal of the Association.

The Council is truly representative of the best thought in the field of medicine, consisting of sixteen members, twelve of whom hold professorial positions in the leading medical colleges of the country, and a staff of clinical consultants of fifteen, thirteen of whom hold similar positions.

The official organ of the Association is its *Journal of the American Medical Association*, founded in 1882. It is published weekly with a circulation of over 80,000 copies. Its original articles are by representative physicians and cover the whole field of medicine. The *Journal* has a Therapeutic Department with practical suggestions for the treatment of the commoner diseases; a Medicolegal Department which summarizes important judicial

decisions which affect the medical profession; a Propaganda Department which exposes the nostrum evil; a department of New and Non-official Remedies (*vide supra*). The *Journal* also contains an epitome of the medical literature of the world, society reports of the greater number of prominent societies of the country, editorials touching all points of medical progress, reports on medical education and state boards of registration, etc.

The Principles of Medical Ethics³ of the American Medical Association, as adopted in 1912, are divided into three main headings: The Duties of Physicians to Their Patients; the Duties of Physicians to Each Other and to the Profession at Large, and the Duties of the Profession to the Public, with several sub-headings under each.

These Principles of the American Medical Association are adopted by all of the component state societies and by the county societies throughout the country and so may be looked on as the national code which regulates to a greater or less extent the professional actions of all members of the medical profession.

Beside the county, state and American Medical Societies, which include in their membership all physicians, there are numerous other local and national medical societies devoted more or less to special branches of medicine. With very few exceptions, these national bodies hold annual meetings, many of them coincidentally in Washington, D. C. In footnote four,⁴ below, is given a list of these national American societies, their names giving an inkling of the branch of medicine to which their deliberations are devoted.

³ See page 260.

⁴ LIST OF NATIONAL MEDICAL SOCIETIES

American: Academy of Medicine, Academy of Ophth. and Oto-Lar., Association of Anatomists, Association of Genito-Urinary Surg's,

ADMISSION TO THE MEDICAL PROFESSION

The standards regulating the admission to the medical profession have been raised very decidedly during the past few years, and the privilege to practise after becoming a member of the profession is being granted under constantly increasing restrictions. The Council on Medical Education and Hospitals, of the American Medical Association, has classified all medical colleges in the country according to standards adopted after years of propaganda, study of the requirements of a thorough medical course, and thorough inspection of the schools. The Council secures data relating to each school which is grouped under four general heads in such a manner that each group is of equal importance. These data concern the faculty, the product, the administration and supervision, and the buildings and equipment, and each group is allowed twenty-five points. Medical schools containing 70 per cent or above of these requirements are classed as A; those between 50 per cent and 70 per cent, as B; and those containing less than 50 per cent, as C.

Under the subject "product" are placed the qualifications of students admitted, the "premedical courses," etc. At the present time six states require a preliminary education of

four years high school before entering the medical schools of that state; four require one year college course; thirty-seven require a two year college course, while the District of Columbia and Wyoming have no fixed standard. Separate medical colleges have requirements higher than those demanded by the state. In 1910, 15.3 per cent of the graduates in medicine had a collegiate degree; in 1921, 46 per cent had a similar degree.

Of the eighty-eight medical colleges rated by the American Medical Association in the United States, seventy are classed as A, eight as B and eight as C, while two are unclassified. Eleven of these medical colleges give only the first two years of the medical course.

In 1906, there were 162 medical schools or colleges in the United States. The marked decrease in the number of medical colleges is the result of the universal demand for higher standards in medical education, and especially in the requirements for admission to medical schools. The old "diploma mill" is a thing of the past.

With the decrease in the number of medical schools there has been a decrease in the number of medical students and graduates. In 1904 there were 28,142 medical students, in 1913, 17,015 and in 1921, 14,872. There were 5,747 graduates in medicine in 1904, 3,679 in 1913 and 3,192 in 1921. Many of the medical schools have limited the

Association of Obst., Gym. & Abd. Surg., Association of Path. and Bacteriologists, Association of Physicians, Association of Railway Surgeons, Child Hygiene Association, Climatological and Clin. Association, Dermatological Association, Electrotherapeutic Association, Gastro-Enterological Association, Gynecological Society, Laryngological Association, Laryn., Rhin. and Otol. Society, Neurological Association, Ophthalmological Society, Orthopedic Association, Otolological Society, Pediatric Society, Physiological Society, Proctologic Society, Psychiatric Association, Psychopathological Association, Public Health Association, Roentgen Ray Society, Society of Tropical Medicine, Surgical

Association, Therapeutic Society, Urological Association.

Association of Military Surgeons of the United States, Congress Am. Phys. & Surgs. of N. A., Conference of St. and Prov. Health Auth's, Medical Association of the Southwest, Mississippi Valley Medical Association, Missouri Valley Medical Society of the National Association for Study of Epilepsy, National Association for Study of Pellagra, National Tuberculosis Association, Society of Amer. Bacteriologists, Southern Medical Association, Southern Surgical Association, Western Surgical Association.

number of matriculates in the first year.

The standard medical course in the colleges is four years. Ten medical colleges have adopted the requirement of a fifth year to be spent by the student as an interne in an approved hospital before the degree of M.D. will be granted.

According to published statistics gathered by the American Medical Association there are 353 medical colleges in all countries. In most of the principal countries a four year course is given.

The privilege to practise in any state is regulated by the laws of that state.⁵ These laws differ somewhat, but have the same underlying objects: the protection of the public against the practice of medicine by men not properly qualified. With the exception of Colorado and New Mexico, every state requires that the applicant for registration shall have a diploma and pass an examination. An examination given under federal authority to medical officers of the United States Army, Navy, and Public Health Service is recognized by most state licensing boards. A National Board of Medical Examiners was established in 1915 for the purpose of conducting examinations of physicians that would be so thorough that there would be no doubt of their qualifications to practise medicine. The certificate of this National Board is recognized at the present time by twenty-one states. The National Board requires that applicants shall have had a four year high school course, two years of acceptable college work, a

diploma from a medical school rated in Class A by the American Medical Association, and a year's service as an interne in an acceptable hospital.

The hospital interne year has been adopted as an essential qualification for the license to practise in ten states. The hospital in which the applicant passes his interne year must be approved by the licensing board. The licensing board generally interprets the law as to the necessary qualifications of a hospital to be suitable for the interne year. In Pennsylvania the Bureau of Medical Education and Licensure of the state inspects the various hospitals offering interne service and determines the suitability of each hospital for such service. The hospital standard has been raised very decidedly by the rulings of the Bureau and in many instances the action of the Bureau has been the only influence sufficiently powerful to induce boards of managers fully to equip their hospitals. At the present time there are not enough graduates of medicine to meet the demands of the hospitals of the state for internes.

The licensing boards of most states have the power to refuse registration or to revoke a license "for cause," the causes being specified in most instances. These include immoral, unsafe, unprofessional, or dishonorable conduct; habitual drunkenness; excessive use of narcotics; producing of criminal abortions; fraud or deceit; crimes or misdemeanors; habitual use of morphine, opium, cocaine; habitual intemperance in the use of ardent spirits or stimulants or narcotics; false or fraudulent representations made to obtain practice; the assuming of another's name; failure to recognize dangerous contagious diseases, etc., etc. The withdrawal of the privilege to practise may be for a limited period or may be permanent in that state.

⁵ *The Laws Abstracts and Board Rulings Regulating the Practice of Medicine in the United States and Brief Statements Regarding Medical Registration Abroad* is the title of a special publication (1921) which can be secured from the American Medical Society, 535 N. Dearborn St., Chicago, Ill. Price 60 cents.

Numerous court decisions throughout the United States have upheld these legislative measures to prevent members of the medical profession from preying on society "by the exercise of deceit, malpractice, or gross misconduct in the practise of his profession."

As the licensing boards have felt, "soundness of moral fibre to insure the proper use of medical learning is as essential to the public health as medical learning itself. Mere intellectual power and scientific achievement without uprightness of character may be more harmful than ignorance. Highly trained intelligence combined with disregard of the fundamental virtues is a menace. A physician, however skilful, who is guilty of deceit, malpractice, or gross misconduct in the practice of his profession, even though not amounting to an offense against the criminal laws, well may be thought to be pernicious in relation to the health of the community."

THE DENTAL PROFESSION

The dental profession is composed of members who have special knowledge and attainments which are applied to the benefit of humanity. A large proportion of this profession give of their time and skill to the poor without compensation. Much of their work is prophylactic and their advice, if carried out conscientiously by their patients, would have a decided tendency to reduce the diseases and conditions requiring their attention.

THE SOCIETIES OF THE DENTAL PROFESSION

The dental profession is organized into a National Dental Association formed to promote the art and science of dentistry, to unite the dental profession into one compact body, to safeguard the material interests of the

profession, to elevate the standards and improve the methods of dental education and to enlighten and direct public opinion in relation to oral hygiene, dental prophylaxis, and advanced scientific dental service.

The membership in the national organization consists of the state societies and members of the Army and Navy Dental Corps. The general government of the Association is vested in a House of Delegates which consists of delegates elected by the constituent societies. The House of Delegates elects the officers of the Association and a board of trustees, and transacts all the business of the Association, public, professional, or scientific.

For the purpose of advancing scientific work, the Association is divided into six sections, each caring for a particular branch of dentistry. The Association has organized and maintains a Scientific Foundation and Research Commission, which is charged with the duty of raising funds to carry on exhaustive dental and oral research, to disseminate scientific knowledge, and to organize and incorporate the Research Institute of the Association.

A Board of Trustees elected by the House of Delegates has full charge of the property and of the financial affairs of the association. The Board also has charge of the publication of the *Journal of the National Dental Association*, and of all proceedings, transaction, memoirs, etc. of the association.

The annual dues of the Association are \$2, which also cover the subscription to the *Journal*. Membership is limited to members of the constituent societies.

Annual sessions of the Association are provided for by the Board of Trustees. Much of the general work of the Association is performed by its standing committees.

A Judicial Committee considers all questions, complaints, protests and matters of an ethical nature. Its decisions are subject to appeal to the House of Delegates.

A Committee on Dental Education makes an annual report to the House of Delegates on the existing conditions of dental education in the United States, makes suggestions as to the means and methods by which the National Dental Association may best influence dental education, and acts as the agent of the Association in its efforts to elevate the standards of dental education.

A Committee on Dental Legislation coöperates with the officers of the state and local societies and with the chief officers of the United States Army and Navy in regard to legislation affecting the welfare of dentistry. It makes recommendations to the House of Delegates concerning pending legislation.

A Committee on Transportation arranges special transportation rates to the annual session.

A standing resolution provides that state and constituent societies shall add one dollar to their dues for the support of the Research Institute and that the funds so collected shall be remitted directly to the Research Institute.

The code of ethics adopted by the National Association is adopted by the state and constituent societies, and thus governs the entire dental profession of the country.⁶

The faculties of the various schools of dentistry have organized into a national body known as the National Association of Dental Faculties. The objects of the association are to advance the teachings of dentistry and to make it as uniform as possible throughout the country.

⁶ See page 266.

A similar organization is composed of the state examiners for the registration of dentists. This body is known as the National Association of Dental Examiners, practically every state being represented, with the laws of various states governing their actions as examiners and making such actions official.

A Dental Educational Council of America is composed of five members from each of the three national organizations, the National Dental Association, the National Association of Dental Faculties, and the National Association of Dental Examiners. This Council adopted minimum requirements for Class A Dental Schools in 1916, revisions being made in 1917, 1918, and 1920. The object of the Council in adopting such requirements is to advance the standards of the dental colleges, thereby advancing the product of the school, the dentist.

The requirements of the Council consider the administrative policy of the college, the minimum entrance requirements, the faculty and teaching staff, the equipment and teaching facilities, the course of study and curriculum, the rules of attendance, promotion and gradation, and the state board record of each school, and outline fully the minimum in each case required to place the college in Class A. A Class B college does not meet all of the requirements of the Council for designation as A, but is making full utilization of its facilities and will be able to meet the higher requirements in a reasonable time. A Class C college, in the opinion of the Council, cannot meet the requirements of the Council without extensive improvements and complete reorganization.

There were nineteen Class A, twenty-four Class B and four Class C colleges listed by the Council in 1921. Graduates of Class C are not accepted for

registration in any of the states of the Union. Class A and Class B graduates are eligible for registration in all states.

DENTAL ASSOCIATIONS

The state dental associations form the constituent societies of the national organization. Practically every state and territory in the union has such an organization. That of Pennsylvania will serve as a sample of the others.

The Pennsylvania State Dental Society was incorporated in 1869, the object being "to advance the science of dentistry, and thereby to lessen human misery by investigating the diseases incident and remedies applicable to the human mouth and its dependencies; by observing and recording the changes produced in dental maladies by the progress of the arts, population, manners and customs, temperament, age and sex; by searching for and applying the various remedial agents to be found in the several kingdoms of nature, by enlarging the avenues of knowledge from observations, discoveries and inventions, both at home and abroad, and by cultivating uniformity and order in dental practice."

Membership in the Pennsylvania State Society is limited to the members of the component societies. The dues are \$2 per annum, payable to the component society of which the payee is a member, which society forwards the dues to the secretary of the State Society. Meetings of the Society are held annually.

The council of the Society has full control of its business, appoints all delegates and standing committees, selects the place for the annual meeting, nominates two persons for each vacancy to be filled in the officers of the Society and four persons for each vacancy in the State Board of Dental

Examiners, two of whom are nominated by the Society to the Governor for appointment on the Board.

The standing committees are the Program, Clinic, Publication, on Ethics, on Dental Science and Literature, on Necrology and on Arrangement, whose duties are outlined by the titles.

The Committee on Ethics aids in maintaining the ethical standard of the Society. The code of ethics is that of the National Dental Association.⁷

The local dental societies which form the component societies of the state society are not necessarily county societies. Some of these local societies, such as the New York Society of Orthodontists, are composed of members of the dental profession especially interested in some particular branch of dentistry. Others, like the Pennsylvania Association of Dental Surgeons, or the Academy of Stomatology, include all members of the profession. Similar organizations are found throughout the Union, all component societies of their state organizations and all subject to the Code of Ethics of the National Dental Association.

The Pennsylvania Association of Dental Surgeons was organized in 1845 by dental surgeons of the city of Philadelphia who were "imbued with a love of our science, and desirous of improving and elevating it, and promoting the honor, character and interests of the dental profession."

Meetings are held monthly, except during July, August and September. Applicants for membership must be twenty-one years of age, of good moral character, and legal practitioners of dentistry. Any member may be impeached for contravening the laws of the society, for malpractice or other

⁷ See page 266.

misconduct. If a committee appointed for the purpose of considering the impeachment, after a fair trial, sustains the impeachment, the society may expel the member by a two-thirds vote.

The Academy of Stomatology was organized in 1894, the objects of the society being "the education and mutual improvement of its members in all matters pertaining to the study of the oral cavity by the presentation and discussion of papers; the collection of literature, specimens and models, and the study thereof; and the fostering of all efforts which tend to the advancement and elevation of dentistry as a profession."

A council is the governing body of the society. It elects all officers, has charge of all questions of finance, maintenance or betterment of the organization.

Membership in the society is limited to the organizers, not to exceed fifty, and such other members as may be elected by the Council after the names of applicants have been presented to all members for consideration and protest or approval to the council. The constitution of the Academy provides for the establishment and maintenance of a library and a museum for the collection and preservation of specimens, models, appliances, etc., pertaining to oral science, art and practice.

Meetings are held monthly, except during July, August and September. The annual dues are \$10, of which sum \$2 for each active member is forwarded to the Secretary of the Pennsylvania State Dental Society.

The Academy of Stomatology accepts as the standard for the guidance of its members the code of ethics adopted and set forth by the National Dental Association.⁸

⁸ See page 266.

ADMISSION TO THE DENTAL PROFESSION

The practice of dentistry is regulated by the laws of the various states. Practically every state in the Union has passed laws for this purpose. These laws provide for the registration of dentists, the qualifications for registration, methods of examining, licensing, revoking of licenses, penalties for practising without a license, etc. The state law of Pennsylvania may be taken as an example of these laws.

In Pennsylvania, the Act of May 5, 1921, provides that a Dental Council, composed of the Secretary of Internal Affairs, the Commissioner of Health, the Superintendent of Public Instruction, the President and First Vice-President of the Pennsylvania State Dental Society and the Secretary of the Board of Dental Examiners, shall supervise and provide rules for the examination of all applicants for license to practice dentistry in the commonwealth, shall have the sole power to grant licenses to practice dentistry in the commonwealth, and shall have sole power to revoke licenses to practice dentistry "if the accused shall have been guilty of malpractice or convicted of a felony or of violating the dental laws of this commonwealth or shall be addicted to the use of narcotic drugs: provided, that any person whose license shall have been revoked shall have the right of appeal to a court of competent jurisdiction."

Applicants for registration must be twenty-one years of age, of good moral character, of competent education, and must have a dental degree conferred by a reputable educational institution approved by the Dental Council. The fee for registration is \$25. The applicant is examined by a Board of Dental Examiners in certain specified subjects, with practical

demonstration of their ability to perform dental work. License is granted by the Dental Council, and must be registered. All members of the dental profession must register once yearly, paying a fee of one dollar, which fees are to be used by the Board of Dental Examiners for the purpose of carrying into effect provisions of the Act against unlicensed and unregistered practitioners.

The law also provides for penalties to be imposed on those who practise without a license.

THE NURSING PROFESSION

Closely allied to the medical profession, in fact its right hand, is the nursing profession. Specially trained to care for the sick and injured, the members of this profession devote their time, energy and skill in aiding the medical profession to alleviate the sufferings of others, aiding it to prevent disease and aiding it in promulgating health measures. Its prime object is the service it can render humanity.

ORGANIZATIONS OF THE NURSING PROFESSION

The organizations of the nursing profession comprise local, state and national associations. The local organizations consist of the alumnae associations of the various training schools for nurses, usually connected with hospitals, in various sections of the country. These alumnae associations consist of graduates of their individual schools, "working together for a common good as comrades and companions to maintain the ideals of education, of harmony and of organization" of the nursing profession. Each group forms its own government, qualification for membership, etc. Meetings are held regularly, both for scientific advancement and for social intercourse.

Practically every state in the Union has a state organization, that of Pennsylvania being a good example of the form of organization maintained. In Pennsylvania the official organization is known as the Graduate Nurses' Association of the State of Pennsylvania. For the better furtherance of the purposes for which the Association was formed, the state is divided into districts, each district comprising several counties. Membership is limited to registered nurses who are members in good standing of their alumnae association.

The general supervision of the affairs of the Association rests with the Board of Directors which is composed of the officers, chairman of the Committee on Eligibility, and four directors. The Board arranges for the annual, or semi-annual meetings of the Association, prepares the program of papers, and attends to the general business of the Association. An Advisory Council, consisting of the officers of the Association, the presidents of the district associations, the chairmen of sections, the president of the State League of Nursing Education, and the president of the State Organization for Public Health Nursing, considers and promotes the general interests of the Association.

The voting body of the sessions of the Association consists of the regularly accredited delegates from the district associations, each district being entitled to one delegate for every twenty-five members.

"Any member whose moral or professional conduct may reflect upon the Association may be dropped from membership by the Board of Directors" after thorough investigation, the accused having the privilege to offer a defense.

The official organ of the Association is that of the national body, the *American Journal of Nursing*.

The national body of the nursing profession is known as the American Nurses' Association, incorporated in 1901 under the laws of New York State, and in 1917 under the code of laws of the District of Columbia.

The purposes of the corporation "are to promote the professional and educational advancement of nurses in every proper way; to elevate the standard of nursing education; to establish and maintain a code of ethics among nurses; to distribute relief among such nurses as may become ill, disabled or destitute; to disseminate information on the subject of nursing by publications; to bring into communication with each other various nurses and associations and federations of nurses throughout the United States of America."

Membership is limited to members in good standing in the state associations belonging to the national association.

The general business of the association is vested in a Board of Directors. An Advisory Council to consider and promote the interest of the Association is composed of the officers of the Association, the presidents of state organizations, members of the Association, the chairmen of sections, and the editor of the *American Journal of Nursing*.

The general work of the Association is carried on by eight standing committees. A biennial convention of the Association is held. Dues are paid by the component societies, fifteen cents for each active member of each society.

There are forty-eight state members of the national body. The official organ, as has been said, is the *American Journal of Nursing*, published monthly. This is also the official organ of thirty-five state and other nursing organizations.

The National League of Nursing Education was formed in 1893 for the

purpose of joining all directresses of training schools into an organization for the betterment of the instruction given to nurses. It has broadened out since then to include all members of the nursing profession who are engaged in educational work. These include superintendents and assistant superintendents of schools of nursing and hospitals, instructors, supervisors in schools of nursing and head nurses, members of state boards of nurse examiners and head workers in various forms of social, educational and preventive nursing. Many of the states have similar organizations, all of them being component societies of the national association.

Another important national organization is the National Organization for Public Health Nursing, which includes in its membership both lay and professional members. As its name implies, its activities are principally concerned with public health nursing.

In order to combine all types of nursing activities in one body, headquarters of the national nursing associations were established in New York. This organization was originally supported by the Red Cross, but at present is sustained entirely by the various national associations of nurses. One of its most important functions is to act as a placement bureau where applicants for positions in various administrative or teaching positions register; and where one may apply for assistance in obtaining such administrative or teaching nursing forces as are required.

ADMISSION TO THE NURSING PROFESSION

The standards of the profession have been gradually raised through years of constant endeavor on the part of the nursing associations. Educational and training facilities of the various hospi-

tals with which training schools are connected have been thoroughly studied, and a standard set. There are in the country some 1,600 training schools for nurses, of which number 175 are to be found in Pennsylvania.

The education of the nurse for her professional work is obtained in training schools, practically all of which are connected with hospitals. To improve the standard of nursing and of the profession, every state in the union has passed laws providing for the registration of nurses which give the privilege of using the title "registered nurse," or the letters R.N. after her name. The registering of nurses is delegated to a board created for that purpose, the boards in most states having the power to determine the qualifications of the training school from which an eligible applicant for examination for registration may graduate.

The Pennsylvania state law may be taken as an example of the others. This law creates a State Board of Examiners for the registration of nurses, to be composed of three registered nurses and two physicians. The Board elects its own officers, among them a secretary who is required to keep a register of all nurses and attendants licensed under the law, and to file with the State Commissioner of Health an exact counterpart of all certificates issued.

The Board submits annually to the State Board of Charities a report of its findings or investigations pertaining to the training schools in the several hospitals throughout the state. The Board has no power to fix prices or in any way control the compensation received by the registered nurse. The Board prepares a report for public distribution of all training schools approved by the Board as possessing the necessary requirements for giving

a pupil nurse a full and adequate course of instruction. All expenses of the Board are taken out of registration fees.

A member of the Board is elected as an Educational Director, whose duty it is to assist in maintaining the necessary standards in living, working, and educational conditions of the various training schools.

The law provides that every applicant, to be eligible for examination for registration, must furnish evidence satisfactory to the Board that he or she is twenty-one years of age, is of good moral character, and has graduated from a training school for nurses which gives at least a two years' course of instruction. Those receiving a certificate of registration may call themselves registered nurses and use the letters R.N. All states provide penalties ranging from fines to imprisonment as punishment for those illegally using the title.

The Pennsylvania law also provides for the registering of licensed attendants, after examination. Such applicants must be eighteen years of age, of good moral character, must have completed a course prescribed by the Board in some institution not having a training school for nurses. The licensed attendants are permitted to use the letters L.A. after their names. In every state the law provides that the act shall not be construed so as to affect in any way the right of any person to nurse gratuitously or for hire.

Registration of any nurse or attendant may be revoked by the Board of Examiners in any state for "sufficient cause," these causes varying in the states and including gross incompetence, dishonesty, habitual intemperance, immorality, unprofessional conduct, conviction of felony, any act derogatory to the morals or standing of

the profession, conviction of a crime or immoral conduct, inebriety, drug habit, habitual intemperance, drunkenness, neglect of patient, certificate obtained by fraud,⁹ etc.

The Board of Examiners determines the eligibility of graduates of training schools, and outlines the standards of the schools. In Pennsylvania, the Board also outlines the minimum number of hours of instruction and the curriculum which must be followed. This curriculum calls for 484 hours of theoretical instruction, extending over three years, the various subjects and hours allotted to each being fully outlined.

Applicants for admission to the schools must have had one year high school education, or its equivalent, must present a certificate of good health and good morals, and must be between the ages of eighteen and thirty-five.

THE PHARMACISTS

The pharmaceutical profession is one "which demands knowledge, skill and integrity on the part of those engaged in it, being associated with the medical profession in the responsible duties of preserving the public health and dispensing the useful though often dangerous agents adapted to the cure of disease."

PHARMACEUTICAL ASSOCIATIONS

The American Pharmaceutical Association was organized in 1852 for the purpose of uniting the pharmacists of America in a body which should improve and regulate the drug market, encourage proper relations among druggists, pharmacists, physicians and the people, improve the science and art

of pharmacy, suppress empiricism, uphold standards of authority in education, theory and practice of pharmacy, create and maintain a standard of professional honesty, etc., etc.

Membership consists of pharmacists and druggists of good moral and professional standing, teachers of pharmacy, chemistry and botany, editors and publishers of pharmaceutical journals, who are endorsed by two members of the association and then elected by majority vote of the council of the association. All members subscribe to the "Code of Ethics" adopted by the Association at the time of its organization.¹⁰

The annual dues are \$4; the price of the official organ, the *Journal of the American Pharmaceutical Association*, is \$4. A reduction of \$3 is made when both dues and subscription to the *Journal* are paid at one time, in advance.

The business of the association is vested in a council which consists of the officers, *ex-officio*, one member from each local branch of the association and nine other members selected from members who have had at least three years membership in the association.

A Reporter on the Progress of Pharmacy is appointed annually for the purpose of preparing a comprehensive report on the improvements and discoveries in pharmacy, chemistry, and materia medica and of preparing an index or brief abstract of current pharmaceutical and chemical literature for publication in the journal of the association.

The council elects the officers of the association: has charge of the revision of the roll of members, the editing, publication and distribution of all publications of the association. It elects two standing committees of the

⁹ For the Code of Ethics of the Graduate Nurses' Association of the State of Pennsylvania see page 265.

¹⁰ For this code see page 267.

council, one on Publication and one on Finance. The council publishes the official organ of the association, its journal. It also appoints a committee of fifteen, from the members of the association, which has charge of the revision of the *National Formulary* which contains definite formulas for preparations frequently used in medical practice, for which formulas are not contained in the *United States Pharmacopoeia*. It is the standard governing the members of the association.

Meetings of the association are held annually. To expedite and render more efficient the work of the association, sections are provided on Commercial Interests, on Practical Pharmacy and Dispensing, on Pharmaceutical Legislation and Education, on Historical Pharmacy, with a Women's Section and a Scientific Section with subdivisions on Chemistry, Botany, Biologic Assays, and Bacteriology. Various standing committees are appointed or elected, such as that on United States Pharmacopoeia, on Transportation, on Research, on Pharmaceutical Syllabus, etc.

Local branches of the association are formed in the various states, all members of the local branch being members of the national association.

Each state in the union has its pharmaceutical association. The United States is also divided into districts, each consisting of several states, and each having its separate organization.

Other national associations connected with the profession of pharmacy are as follows:

The National Association of Retail Druggists, with component societies consisting of local associations of retail druggists.

The National Association of Boards of Pharmacy. The state boards of pharmacy have in charge the examination of applicants for registration as pharmacists, making the requirements for eligibility, etc.

The American Conference of Pharmaceutical Faculties, which prepares a list of the schools or colleges of pharmacy of recognized merit. Efforts are being made to raise the general standard of all colleges by increasing the educational requirements for admission. Graduation from a recognized college of pharmacy is a prerequisite to examination for registration as a pharmacist in all states.

The American Drug Manufacturers' Association.

All of these national organizations hold annual meetings.

Ethics and the Engineering Profession

By MORRIS LLEWELLYN COOKE

Consulting Engineer, Philadelphia, Pennsylvania, Member, American Association of Engineers,
Member, American Society of Mechanical Engineers

WHAT we are interested to know about any group, especially about a group which easily numbers 200,000 throughout the nation, is something as to its ideals. And thoroughly to understand that situation we must know the ideals of yesterday, as well as those of today, in order to see the drift and so to discern the probable ideals of tomorrow. The ethics or standards of conduct of any profession or group are very largely the reflection in action of its ideals. The moment ideals become fixed or static they are dead. This is the law of life. When we clothe a code of ethics as a guide to conduct with the quality of finality, it becomes as futile as sounding brass. Whether for the individual or the group it is in the light of our living, vibrant aspirations that all question of conduct must be tested. This is the constitution which rectifies the quibbles of language and the conflicts of interests.

Someone has said that an artist is one who holds ideals up before the people. If there is to be any significance in the term "profession" surely all professional men must qualify in this respect as artists. And engineers seem to be moving in this direction. One of the engineering societies, the American Society of Mechanical Engineers, was founded about forty years ago very largely on the ideal that there was a sufficient content in the science of mechanical engineering to warrant a national society devoted to its development. We have been told by the founders that among the majority of the charter members the view was strongly held that if all commercial con-

siderations were to be excluded the residue would not be sufficient to warrant the attention of a large national group. Of course, these doubts have long since been dissipated and today it seems like a platitude to say that the science connected with the mechanical arts is limitless in extent. This bit of history is cited here as affording a very concrete example of the way in which we progress through weaving into the fabric of the future materials which may not even be available today. The long look ahead—a point of view denied to those who are wholly engaged with present necessities—seems inherent in the equipment of the professional man.

About one hundred years ago when the British Institute of Engineers was founded, engineering was defined as "the art of directing the great sources of power in nature for the use and convenience of man." Perhaps it was all there, but who can fail to see the overwhelming growth in the conception of the possible function of the engineer as shown in Herbert Hoover's definition of engineering as "the profession of creation and construction, of stimulation of human effort and accomplishment." And must it not be assumed that with the fuller realization of this concept of the field of engineering action there will come corresponding changes in the accepted standards of professional conduct.

Perhaps the most fateful step taken within the profession since its inception is the inclusion in the constitution of the Federated American Engineering Societies of a clause which

reads, "This organization shall stand for the principle of publicity and open meetings" and the adoption in open convention of an interpreting by-law which reads, "The privilege of attendance at all meetings of the American Engineering Council, of the Executive Board, and of committees, when not in executive session, shall be extended to any proper person," and further, "Any proper person shall have the right to inspect and make true copies of the official records of all meetings of the Council, the Executive Board, and committees." To the credit of this organization it can be said that during 1921, its first year, it resorted to the executive session device but twice and then but for a few moments on each occasion. In the light of subsequent happenings at least one of these lapses was unnecessary and probably hindered rather than helped the work in hand.

Assuming that this radical departure in favor of publicity in engineering was made wittingly by these representatives of nearly 80,000 of the most representative American engineers and that it receives the understanding support of the rank and file and that in due course it is made a feature of the organization of all engineering bodies, then engineering becomes essentially a possession of the community, and this in a sense denied to other professions and even to government. It is usually assumed that the details of government, for instance, are open to public knowledge and inspection. But the necessities of party government, international relations and the relations between a public buyer and a private seller, frequently act as a more or less complete block to publicity. Obviously in law, medicine and the ministry, because of the paramount rights and privileges of the individual, there are frequent and uneradicable limitations

to publicity. But if the profession of engineering ever gets the vision as to the workability of complete publicity throughout its field, the change thereby effected in the life of the peoples and their governments will be far-reaching. The ethics of the profession will, I believe, frown more and more insistently on the use of engineering knowledge in secret ways and in secret places. Publicity in engineering neither challenges nor endangers any proper interest, public or private. The day will surely come when in a very real sense every engineer will be a public engineer.

Up to within a few years all engineering codes in this country were modelled after the code of the British Institution of Civil Engineers. The remarkable fact about this code and those which grew out of it was the failure to mention the public interest as a test—if not the supreme test of action. This omission has been very fully covered in the code adopted by the American Association of Engineers and published in the appendix to this volume.¹ A reasonably satisfactory recognition of the obligation is contained in the proposed Joint Code quoted in Mr. Christie's article.² The basic thought is adequately and eloquently expressed in the preamble to the constitution of the Federated American Engineering Societies as follows:

Engineering is the science of controlling the forces and of utilizing the materials of nature for the benefit of man, and the art of organizing and of directing human activities in connection therewith.

As service to others is the expression of the highest motive to which men respond and as duty to contribute to the public welfare demands the best efforts men can put forth, NOW, THEREFORE, the engineering and allied technical societies of the United States of America, through the

¹ See page 277.

² See pages 101-3.

formation of the Federated American Engineering Societies, realize a long cherished ideal,—a comprehensive organization dedicated to the service of the community, state, and nation.

The same idea is covered very completely in the last clause of the "Management Engineers' Creed," a terse code used by the Taylor Society, a society to promote the art and science of administration and management, which reads as follows:

The sublimest duty of the engineer is to keep the faith: The faith of the client that he will not undertake what he knows to be beyond his ability; and that with respect to what he undertakes he will give conscientious service to the limit of his ability;

The faith of his fellow engineers that he will remain true to his science and will magnify and not cheapen it; and that he will base his efforts for public recognition upon ability, scientific attainment and actual performance, and not upon ambiguous self-laudation;

The faith of the community that he will undertake no service inconsistent with the public welfare; and that in service consistent with public welfare, but in which the interests of groups appear to come in conflict, he will judge carefully and sympathetically the claims of rival interests, and attempt to establish that unity of purpose which promotes the public welfare.

The ultimate goal here is the flat-footed declaration that good engineering must be in the public interest and, contrariwise, that any engineering which is anti-social must be bad engineering.

These obsolete codes, such as those of the British Institution and that which now stands on the books of the American Society of Mechanical Engineers, were drafted under the conception that engineering was a craft and that those who practised it constituted a fraternity and as such owed a higher obligation to fellow-practitioners than to the public. In a code

adopted as recently as June, 1917, by the Western Society of Engineers occurs this sentence, "The ethical standards of the engineering profession should be those of a fraternity." In these earlier codes there was a strong reprobation against the use by engineers of anything but technical publications for making announcements of their discoveries, inventions, researches, etc. This had the tendency to make of engineering a cult rather than to advance the more obvious purpose, which was to discourage engineers from reaching the public prematurely. These weaknesses have been completely overcome in the more recent codes.

In the light of what has been said, the writer's apprehensions as to codes of ethics, interpretations of such codes and discipline under the codes will be clear. Just as laws are always interpreted in the light of the constitution, so ethical codes must always be interpreted in the light of the ideals of the profession. Hence it may easily become at any given time the highest function of the professional engineer to act and speak contrary to a code—or to all the codes—if by so doing the ideals of the profession may be conserved or advanced. Nowhere is the heresy of today more apt to be the honored standard of tomorrow than in the relatively unexplored field of engineering practice.

The greatest safeguard in the development of a proper procedure for the enforcement of ethical conduct is publicity. Possibly the present almost entire lack of publicity in these matters can be defended from the standpoint of the newness of our machinery and the liability to error growing therefrom. But absolute publicity must be the goal. The American Institute of Architects seems to set the pace in this respect.

In the long run it would probably

prove advantageous if we could declare, say a five-year period, in which absolutely no discipline or punishments would be meted out to offenders. This closed season would give everybody a chance to put his house in order if such revision be necessary. Five years is all too short a period in which to ascertain the mind of the profession through the investigation of complaints and the publication and discussion of interpretations. In the enforcement of ethical standards it must be the mind of the profession rather than that of a committee or a group which must be the authority. As the writer has said in another place:³

Ethical conduct for engineers is such as has received more or less general sanction. This means that conduct which at one time and place may receive very generous approval at another time or in a different locality may be generally considered reprehensible. So that the master test as to whether conduct is ethical or not depends largely on what people *generally*—and of course I mean well-intentioned people—think about it. That to have an individual or even a group agitate for certain reform has a value should go without saying. In fact, most improvements are brought about in this way. But these higher standards only become the rules for conduct when through education they have become *accepted* as proper by a sufficiently large or influential element within the given constituency. The point I want to make is that the writing out of a code or set of rules is useful only in establishing good conduct when such injunctions are so phrased as to be accepted as reasonable by those whose conduct they are intended to regulate. Neither the wisdom nor the exalted character displayed in the text is the test. The acceptance by the community is what makes the conduct ethical or not. In the same way our engineering practices are ethical or not as they conform to what may be called the best sense of the profession.

In the work of the Practice Committee of the American Association of Engineers my attention is constantly called to the difference between unethical conduct on the one hand and illegal and immoral conduct on the other. If the profession of engineering is to secure the confidence of the community in the degree necessary for the execution of a high task, it must erect standards such as will not only give the public no cause for suspicion but create in the public mind that absolute confidence which is the antithesis of suspicion. Think of the limitless freedom which the medical profession enjoys in the homes of the world. The wonder does not lie in the fact of this freedom. It lies rather in the fact that the members of the medical profession have carried themselves so faultlessly in these intimate relationships that we never pause to wonder at it.

Surely then we engineers can assume moral and legal conduct. Such conduct is inherent in every code. The man who offers a bribe or who requests one is guilty of an immoral act and usually of an illegal one. But it does not aid in the upbuilding of ethical professional standards to confuse such a breach of the moral sense of the community, or law-breaking of any kind, with those higher rules of conduct which are supposed to set off the professional man as a class entitled to the highest respect of the community.

The idea of leadership in the community seems to be inherent in the term "professional man." But leaders do not require the control of codes and procedures for their enforcement. Hence it is easy to read too much importance into such devices. They have an educational value for the young and also exert a deterring influence on those who do not want to play the game. Indeed, codes of ethics and the mechanisms through

³ *Professional Engineer*—November, 1920. Pp. 7-8.

which they are made effective may be likened to "trench cleaners" in modern warfare. Periodically the necessities of combat require that the trenches and the rear be freed of those who have not accepted the issue of battle. But the real line of advance—the shouting and the glory and the flag—are way out in front in No Man's Land and beyond.

It seems altogether possible that the engineer will play an increasingly important rôle in the immediate future. The Great War, with its lessons as to what can be accomplished through organization and the applications of science to the affairs of men, is still fresh in the minds of the peoples. There seems to be every incentive not only for the engineer to go forth to meet glorious opportunity but for the public to welcome him with open arms. But History is full of lost chances.

Given the excuse, a public in a surprisingly short time can grow lukewarm and even antagonistic. Civilization needs the "know how"—the constructive, creative mind—as never before.

The work ahead is one of producing world-wide effectiveness rather than individual or national profit, of cutting out waste rather than regimenting men. The engineer if he is to be equal to the task must approach it altogether from the service angle. To make us worthy and able for this task nothing will be of greater assistance than high standards of professional conduct—the higher the better. In fact the opportunity now knocking at our door will not be fully embraced until a deep spiritual relationship has been established between the engineer and a race set free.

The Ethics of the Mechanical Engineer

By CALVIN W. RICE

Secretary, American Society of Mechanical Engineers

IN the concept of his obligation to society, the mechanical engineer has always possessed an idealism, although it was not actually formulated until comparatively recent years. Whereas some of the organizations representing other branches of the engineering profession may have had codes of ethics, formally approved and recognized by their bodies at an earlier date than the first code of the American Society of Mechanical Engineers, it is inconceivable that with such founders as this Society possessed and with such engineers as have been included in its rolls of membership through practically the half century of its existence, the members of the Society have not taken on the ideals and motives of

these leaders as a guide for their professional conduct and in their relations to society. Men like Professor John E. Sweet, Alexander L. Holley, H. R. Worthington, Professor R. H. Thurston, its first president, all of whom were included among the founders of the Society, and men like Henry R. Towne and Captain Robert W. Hunt, fortunately still living, are all such recognized examples of practitioners of the highest ethical standards, that any organization fortunate enough to include their names within its membership must perforce adhere to high principles of ethical conduct or else such men would not continue as members. Such an organization must base all its transactions upon the

principle of the Golden Rule, which is after all, what a code of ethics really is.

The necessity for a joint code of ethics for all engineers arises from the fact that, unlike lawyers and doctors, engineers are not organized into one professional body. The engineering organizations now in existence have all evolved from small professional groups interested in specialties. The early meetings of these bodies were devoted to the discussion of papers within specific fields of engineering in contra-distinction to giving attention to the broad and general problems of the engineering profession. In those days, some half a century ago, the community of interests of the several kinds of engineers was not recognized since it was the habit for engineers to segregate into professional groups. Today the great national engineering societies are an important evolution of these groups and are organized along what have come to be the four main branches of engineering practice: civil, mining and metallurgical, mechanical and electrical.

Within the last few years, with the growing concept of the professional obligation within the engineering profession, a number of joint movements have developed, so that by the time the War came the sum total of co-operative and conjunctive activities of the engineering organizations had become very large. The War brought home to us all the essential principle of the obligation of the engineer to society, and since the War, with the complications of civilization still in progress, this sense of obligation has been accentuated until now the underlying ideal of the professional engineer is professional unity.

With the stage thus set, the American Society of Mechanical Engineers enthusiastically joined in the idea of a code of ethics in common for the engineering profession, and within the last year has

participated in steps to secure the formulation of a code which would be acceptable to all engineers. The subsequent recounting in this article of the progress of a code of ethics within the American Society of Mechanical Engineers, during the ten years prior to the inception of this joint code, will convey an idea of the difficulties still to be overcome. However, it is hoped that, with the great incentive of the need throughout the world for the resumption of progress, and with the realization that it is to America, free as she is from the results of the War, that the world is looking for leadership, these engineers who are leading the profession will be imbued with a new determination and a concentration of effort towards the realization of the ideals of the professional engineer.

THE MECHANICAL ENGINEER'S RESPONSIBILITY TO SOCIETY

The essential difference between a professional man and one skilled in any craft is the urge for his undertaking; that is whether it is simply a means of livelihood or whether it is the devotion of his talents to the common good, trusting that he will receive proper compensation. Assuming that the latter concept of the obligation of the mechanical engineer is accepted as the essential end for his professional career, then a code of ethics becomes necessary not only to assist the mechanical engineer in his conduct, but to acquaint the world with what it may expect from a professional man, thus rendering the profession, as such, stable and recognized by society.

HISTORY OF THE CODE OF ETHICS OF THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS

Those who are familiar with the inner workings of the volunteer efforts of individuals within societies, not

alone professional, will appreciate the fact that only on very rare occasions and under some great incentive does an organization ever become single-minded and express itself as being so. Actions must necessarily be compromise actions; radically new policies are rarely attempted unless there has been previous deficiency, and a new policy is simply corrective of some form of weakness. In a professional society most of the members behave themselves most of the time and fortunately violations of the laws of professional conduct are exceedingly few and far between.

It is only when there is some flagrant violation of the code, and considerable publicity is given to the case that those members of the society most ethically minded wonder whether the principles of conduct for fellow members have been sufficiently prescribed and if they have not, whether it would not be advisable to revise the existing canons or to make new ones. Of course this kind of questioning does not take place very often until the standards of conduct have become fairly determined.

All the above is as a preamble to saying that it was not until about 1910, thirty years after its organization, that the attempt was made within the American Society of Mechanical Engineers to formulate a code of ethics. In January of that year the Council of the Society "approved the appointment of a Committee to consider respecting the advisability of the Society's preparing a code of ethics." A committee consisting of Mr. Charles Wallace Hunt, Dr. W. F. M. Goss, and Professor John E. Sweet was appointed. The discussion which led the Council to take its first action is not recorded, but a subsequent action is stated to have been taken:

Whereas, The Society is often addressed on the general subject, and *Whereas*, The

American Institute of Electrical Engineers have just adopted an admirable code of ethics:

Voted: That a Committee of three be appointed by the President to consider and report its recommendations to the next meeting of the Council.

The first Special Committee of three was later increased to five and its personnel changed to Charles Whiting Baker, Chairman, Charles T. Main, Colonel E. D. Meier, Spencer Miller and C. R. Richards. It was this augmented committee which in December, 1912, presented a report to the Council embodying a code of ethics.

The Council voted "to receive this report and publish it in the journal of the Society, with special emphasis on the suggestion of the Committee that the membership at large be invited to make suggestions and criticisms, to be sent to the Committee." It was also voted "that this report be made a matter of discussion by the Society as a whole at its semi-annual meeting held in Baltimore in 1913."

The proposed code was discussed at that meeting of the Society and the following action was taken:

Resolved: That it be recommended to the Council that the proposed code of ethics be printed in pamphlet form and a copy mailed to each member of the Society, accompanied by a ballot so prepared that each member may vote upon each clause separately; and that if the majority of those voting are in favor this meeting recommends that the Council shall declare the report approved and shall arrange for the appointment of a committee on the interpretation of the code.

The code was duly issued and submitted to letter ballot of the membership in October, 1913, and the ballot was favorable. The code was thereby adopted by the whole Society. Mr. Charles Whiting Baker, Chairman, Charles T. Main, Colonel E. D. Meier,

Spencer Miller and C. R. Richards, the original committee which formulated the code, were appointed a Committee on Interpretations.

THE FIRST CODE ADOPTED BY THE AMERICAN SOCIETY OF MECHANICAL ENGINEERS

An analysis of the first code of ethics of the American Society of Mechanical Engineers reveals the fact that its purport was chiefly admonitory. This code, which was not a code of principles so much as a code of recommended practices in specific cases and injunctions against performing specific acts of impropriety is reprinted on page 271 of this volume.

ATTEMPT AT A SECOND CODE

At the end of 1918 a wave of idealism swept through the United States and professional engineering societies made investigations of their activities in the light of their new concepts. In common with the other societies, the American Society of Mechanical Engineers appointed a special Committee on Aims and Organization which made recommendations concerning the Society's activities and also concerning the activities of a national engineering organization in connection with the community.

The report of this Committee consisted of a series of different recommendations, condensed to a minimum number of words and enumerated without very much preamble. The object of such a report was to focus attention on the most important activities to be developed and to avoid detail of discussion. The report of this Special Committee on Aims and Organization contained the following regarding the code of ethics:

RECOMMENDED: That it is the sense of this Committee that a short code of ethics of broad scope, general character

and positive rather than negative injunction, be prepared and that the same be enforced vigorously.

RECOMMENDED: That a Committee of five on Code of Ethics be nominated by the President and confirmed by the Council who shall report back to the Society at the Annual Meeting.

Upon the adoption of these recommendations by the Society, the Council appointed a new committee, consisting of Professor A. G. Christie, Chairman, Mr. Robert Sibley, J. V. Martenis, T. H. Hinchman, H. J. C. Hinchey and Charles T. Main, to prepare a new code, and to consider a means for enforcing it. This Committee reported to the Council on April 19, 1920 and the report was referred to the membership at the Spring Meeting of the Society in the following month.

The discussion at the Spring Meeting was extended and earnest, and the code was referred back to the Committee for restatement in the light of the discussion.

At the same time the Society recognized the recommendation of the Committee that a code should be common to each branch of the profession, and it was therefore offered to the other engineering societies for their consideration. This was the beginning of the efforts for a joint code which are still under way.

The Special Committee before revising the language of the code thought it well to take into consideration representatives of the other engineering societies and recommended the appointment of a Joint Committee. The civil, mining and metallurgical, and electrical engineers responded, as did also the American Society of Heating and Ventilating Engineers, and later the American Society of Refrigerating Engineers.

The representatives of the American

Society of Mechanical Engineers on this Joint Committee are expecting to present again the proposed code, revised in coöperation with the representatives of the other societies, at the forthcoming Spring Meeting of the Society. The Committee still adheres to its plan of a Committee on Professional Conduct to enforce the code, and in fact regards this as an essential requirement.

The proposed code is printed in full on page 271.

It is the belief of many now within the American Society of Mechanical Engineers that success is now not far off. The forces operating for the adoption of the code have now reinforcements from an entirely different direction. The Committee on Constitution and By-Laws of the Society was requested two years ago to present to the Society an entire revision of the constitution and by-laws. This Committee has incorporated in the constitution an article headed "Professional Practice," the first section of which reads:

In all professional and business relations the members of the Society shall be governed by the Code of Ethics of the Society.

This section of the constitution is supplemented by the following by-law:

All members of the Society shall subscribe to the following Code of Ethics as required by the constitution:

(Here is to be inserted the new Code of Ethics when adopted by the Society.)

There follows a second paragraph in the by-laws:

All matters in connection with the administration of the Code of Ethics shall be in charge of the Standing Committee on Professional Conduct under the direction of the Council.

The duties of the proposed new Standing Committee on Professional Conduct are prescribed in the following proposed new by-law:

The Standing Committee on Professional Conduct shall, under the direction of the Council, have supervision of all matters relating to the Code of Ethics and its enforcement, as required by the constitution, and as detailed in the rules. The Committee shall consist of five members and the term of one member shall expire at the close of each Annual Meeting.

These matters of the Constitution and by-laws are likewise to come before the Society at the forthcoming spring meeting.

The work on a Code of Ethics for Mechanical Engineers has, therefore, consumed twelve years to date, and has now the prospect of full realization.

Ethics of the Engineering Profession

By FREDERICK HAYNES NEWELL

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IN its ideals the engineering profession is not surpassed by those of any other group of public servants. In practice, however, because these ideals are so altruistic, it has been found difficult to reduce them to a brief statement and to secure general

agreement upon such statement. Most attempts to produce a brief code comparable with the Decalogue have resulted in little more than an expansion of the Golden Rule, such, for example, as is the code of ethics adopted by the American Society of

Civil Engineers on September 2, 1914.¹

There has been much discussion by engineers of the need of adopting a comprehensive code in order that the ideals of the profession may be presented clearly to the young engineer. On the one hand, these efforts have been scoffed at; indeed, in the case of one of the national engineering societies, it was "decided that no gentleman needed a code of ethics, and that no code of ethics would make a gentleman out of a crook." At the other extreme, there are elaborate results, such as those of the American Institute of Electrical Engineers and other organizations, quoted by Daniel W. Mead.²

The chief difficulty in agreeing upon and adopting a code of ethics for the entire engineering profession has arisen from the fact that there is little agreement, even among engineers, as to the meaning or limitations of the words "engineer" and "engineering," and of the word "profession" as applied to engineering. In the evolution of the English language, the word "engineer" has come into such common use and has been made to include so many different practices that it is now necessary to use some qualifying adjective in order to have a common understanding as to what is meant when using this term.

GRADATIONS OF THE TERM, ENGINEER

In contrast, there is little relative difference in conception when we speak about an architect. This is a term which applies to a rather limited body of professional men, and, moreover, it has been defined by law. In contrast with this, the word "engineer" as employed by a professional engineer has an entirely different

meaning from that understood by the general public or as interpreted by court decision.

In Great Britain the engineer is a mechanic, and, in legal usage, is a man who operates an engine. The organizations of engineers in Great Britain are to a large extent comparable with trade unions in America. In the United States there are possibly a half-million men who, in common usage, are known as engineers, and yet none of whom would be eligible for membership in one of our great engineering societies. The engineer, as the word is popularly used, may be a mechanic, a tradesman, or a professional man. The division between these groups is broad, and it is almost impossible to draw a sharp line.

Some of the best known professional engineers in the United States, prominent in the affairs of technical engineering societies, are themselves business men as well as engineers, managing or controlling directly or indirectly large corporations which construct, build, or sell engineering works, machinery, or power. Many of the leaders have come up through the ranks, and at one time or another have been draftsmen or mechanics, and as such have been eligible for membership in labor unions, even if they have not actually taken out a card. Others, educated in the best engineering schools and for a time serving as professional engineers, have become business men and have gone into contracting or trade relations without losing their standing as professional engineers.

Yet, in spite of these uneven gradations, there is an attempt made at all times to hold before the eyes of the professional engineer certain standards of conduct which differentiate him from the business man, contractor or mechanic. He cannot go so far as the

¹ For this code, see Appendix, page 273.

² "Contracts, Specifications and Engineering Relations." Daniel W. Mead, New York, McGraw Hill Book Company, 1916.

architects in acquiescing to the first rule of their code of ethics, which states that it is unprofessional for an architect "to engage directly or indirectly in any of the building trades." In fact the rigid adoption of such a rule might bring under the ban some of the most prominent members of the engineering profession, owners or partners in engineering corporations, nor has it been found practicable by engineers to follow the architects in their declaration that it is unprofessional to advertise. This drastic rule has been softened by the statement of the civil engineers that it is inconsistent with honorable and dignified bearing "to advertise in self-laudatory language, or in any other manner derogatory to the profession."

The ethical code of the engineer has been founded upon such long experience as has demonstrated that "honesty is the best policy." There may be, and doubtless are, many members of the profession who would prefer to consider that their ethics were purely altruistic and based upon the idealism of Kant, following his stern precepts of absolute devotion to duty and of self-negation. Such men there are in every profession, but the code of ethics has been evolved not by these stern idealists, but rather by the appeal to common sense and fair play, necessitated by the so-called practical conditions that surround the profession. Thus the civil engineers make the prohibition not against advertising but against carrying advertising to the point of self-laudation.

Because of the difficulty, found by the different branches of the engineering profession, in agreeing upon a common code, there has been a tacit agreement upon the point that the only way to perfect a code of engineering ethics is to follow the precedent of the British Institution, namely, to

make decision upon specific questions as they arise, the body of decisions thus furnishing a code which it has been found impossible to write out and to agree upon in advance. Such decisions reveal the underlying principles and can be appealed to in other cases until these principles thus become firmly established in the minds of all concerned.

THE CASE METHOD OF CODE BUILDING

This so-called "case" or project method of building up a code has been put into practice by the American Institute of Consulting Engineers and by the American Association of Engineers. In both of these organizations, composed largely of civil engineers, a simple code has been adopted, and then, as specific cases arise which seem to need consideration, each of these has been considered on its merits and a decision published, stating, without giving names, the facts of the case and the conclusion reached by the Practice Committee. As these cases increase in number and cover more and more widely the conditions which occur in actual practice, there must result a better comprehension, not only of the ideals of the profession, but of the way in which these may be put into effect.

There are thus taken up and considered in succession, numerous questions regarding professional conduct as these arise between members or in daily contact with federal, state, or local officials and business men. The simpler personal matters are passed over quickly by the Practice Committee, but those involving the application of an important principle of ethics are given full consideration and are ultimately published without name. They thus form the basis for general discussion and become interwoven in

the thought of engineers. The decisions result in a body of practice which in effect performs the function of a code of ethics, a code based upon positive or experimental data.

"It is certain that while experience has shown that an authorized and definite code of conduct is generally subversive of moral stamina through its absorption of personal responsibility, still ethics must be made work-a-day to a considerable degree, for they can then, if not slavishly followed, serve as guiding lights, or as points of departure, when a particular situation finds an individual unprepared by his own experience."

Of course, no code can satisfy all conditions. As has been stated, "Engineering, like war, is in practice a far more developed complex than when considered speculatively and coldly as a science. When it enters the world of commerce, it gathers the burdens of human nature. Its problems become those of business as well as those of the laboratory."³

ENGINEERING AS A PROFESSION

There has always been, and probably always will be, a wide difference of opinion as to whether or not engineering is a learned profession comparable to law, medicine and the ministry. There are plenty of examples of devotion to ideals and of a purely professional attitude of mind in engineers comparable to that of any body of men in any one of the older professions. On the other hand, the advocates of the view that engineering is not a profession point to the facts, above noted, that the great body of men who are called engineers are by no means professional men, but are actively engaged in the ordinary business of life.

³ *Engineering Record*, March 17, 1917, page 409.

Various organizations of engineers have attempted from time to time to meet this condition, and, as they term it, "to raise the standard" of the profession. Great care is taken in passing upon the credentials offered and in admitting the applicants to full membership, with the idea that in so doing there will be segregated from the great mass of so-called engineers a rather select group who in their professional characteristics will be comparable to an equal number of members of one of the other professions. The principal difficulty, however, arises, as before indicated, in the fact that engineering is entering more and more definitely into the life and business of the ordinary citizen, so that the leaders in the profession often become drawn into executive positions, dealing in a large way with business affairs. Thus arises the anomalous situation in which leaders who may have passed through the professional stage of life have now evolved into business men and are conducting great corporate efforts, especially public utilities, along lines which, in the popular mind at least, are not compatible with the code of ethics which should be followed by the younger applicant for admission to the organization.

Engineering is a profession in the same sense that pure mathematics is a science, but the value of engineering to the human race is so great and so dependent upon practical application to every-day life that the profession, and the professional man if successful, becomes immersed in business relations.

GROUP ORGANIZATION AMONG ENGINEERS

The history of the organization of engineers is of interest, as illustrating the continual struggle between idealism on the one hand, which would produce a well-rounded code of ethics and, on

the other, the practical considerations which have made such a code impossible of acceptance by all kinds of professional engineers. The first notable attempt at organization was made in the city of Boston and resulted in 1848 in what is now the oldest engineering society in the United States—the Boston Society of Civil Engineers. This association is carefully guarded in its membership; it attempts to preserve the highest possible professional standards among a type of engineers and of people readily recognized, wherever met in any part of the world, as distinctly "New England." The traditional New England conscience and thoroughness have triumphed through all the decades and have set a model for other engineering organizations, for, on examining the constitutions adopted by nearly every subsequent society, it will be seen that the phraseology of the Boston society has formed the groundwork.

Next in time was the organization in New York in 1852 of the American Society of Civil Engineers, which followed upon the excellent precedents already established. This organization has grown steadily and has adhered largely to its early standards, rigidly holding to these and in effect excluding the great body of practising engineers. It has thus forced the organization of many other rather specialized national societies, several of which have exceeded it in number of members.

It is to be noted that the Boston Society and that in New York were obliged even at that early date to use the qualifying word "civil" as separating the members not only from the military engineers but from the mechanical engineers, as well as from the engine runners, such as locomotive engineers, who in turn have formed

the most powerful trade union of the country.

The tendency to restrict the use of the words "civil engineers" to a rather narrow group of men interested in bridges and other large structures, rivers and harbors, waterworks, sewage and roads, finally forced the rapidly widening groups of engineers who were interested in mechanical lines to form the American Society of Mechanical Engineers; and, because of the fashion thus set, the American Institute of Electrical Engineers then separated themselves from the other engineers. The mining men also found that the requirements for admission to the American Society of Civil Engineers were too restrictive, and they in turn formed the American Institute of Mining Engineers. The requirement for membership in the latter society was so different from that of the older American Society of Civil Engineers that for over a decade the older society refused to come under the same roof, largely because of the feeling that there was not sufficient restriction as regards professional standing in the great body of members of the society of miners.

Thus have been formed many national societies of civil engineers, as distinct from military engineers, divided by somewhat arbitrary technical lines, for the civil engineer frequently has to do with the mechanical and electrical devices or structures of the mechanical and electrical engineers, or vice-versa. These divisions have arisen largely from the divergent views as to requirements for admission to the national society. At the same time many state organizations have been formed, largely political in character in the sense that the laws of each state, differing from those of its neighbors, necessitated consideration of engineering matters, such as drainage,

road-building, water works, and sewage, in their relation to the geographic and political entity of the state. These state societies have necessarily been organizations not of civil engineers alone but of men practising the profession of engineering. They include in their membership a large proportion of so-called practical men, surveyors and others who have picked up the work and have been educated not in engineering schools but in the "college of hard knocks."

In each of the principal cities of the United States it has also been found desirable to bring together men who practise engineering, in order to increase acquaintance and to discuss engineering problems with particular reference to local conditions. There are also in each city small groups of members of the national societies, either meeting separately or occasionally coöperating with each other and with the local society of engineers, many of whose members are frequently not eligible for membership in the national organizations.

Thus, a list of engineering societies will include a dozen or more national organizations, a score or more of state engineering societies, and a hundred organizations, one or two in each of the principal cities, each with different standards, coöperating occasionally or competing for membership.

The listing of engineering societies is complicated by the fact that there are many organizations, some incorporated, of men who as in the case of the so-called "sanitary engineers" may or may not be engineers according to the definition accepted. Some of the "sanitary engineers" are simply successful plumbers who may or may not have had an education in the theory of engineering, but who are practical business men,

NEED FOR STANDARDS OF ENGINEERING CONDUCT

The reason for the creation of standards is evident from the brief review above given. The older, more conservative societies believe that it is of the highest importance to the public and to the profession that certain standards be set up and carefully observed. Their concern is mainly for creating and preserving a certain prestige and for rigidly excluding the applicants who do not meet this standard. At the same time, internally these older organizations are continually shaken and their growth and influence often reduced by the interminable struggle between the two factions, since the conservatives are continually trying to raise the standard as against the efforts of the progressives who are looking towards the wider influence of the larger society. On the part of these liberals it is urged that every man who is making a living by the practice of engineering should become a member and, as such, be educated and impressed with high standards by contact with men within the society, and not be forced to the alternative of joining a labor union if he desires to do his part toward improving the condition of his fellow engineer.

The reasons for the creation of the "standards" are those which underlie the ideals of the closed shop which, originated by the medical profession, have been adopted in large part by the lawyers and put into still wider effect by the labor unions, who have become most apt pupils in this regard. The engineering profession, as a whole, may be said to alternate between the ideals of an open, competitive business on the one hand, and, on the other, a restricted, licensed, or registered group, such as that of the lawyers and doctors, or

the closed shop of the labor unions, each professing to seek the highest service to humanity through raising and maintaining certain group standards.

ACTIVITIES OF CIVIL ENGINEERING SOCIETIES

Considering the members of the civil engineering profession and the group action taken by them, it is to be noted that as such they have not attempted to coöperate very widely in their activities with other bodies of engineers, such as the mechanical, the electrical, or the mining. There has been a conscious effort in most organizations of civil engineers to bring together only "the best people" and to realize the ideals of the old Greek term, "aristocracy," in its best sense. Each society of civil engineers has pursued its own way, and the largest, the American Society of Civil Engineers, has kept out of most "entangling alliances." Though persuaded at a late date to make its home on top of the Engineering Societies' Building, it has not taken such action as, in the opinion of the majority of its members, would reduce its standards to those of its neighbors on the lower floors of the building. Thus it has up to the present time kept out of the Federation of American Engineering Societies, though coöperating with some of the societies in specific matters.

In spite of this somewhat exclusive attitude, the civil engineers have entered into conferences, one of the most notable of these being the Joint Committee on a Code of Ethics for Engineers, consisting of representatives of the American Society of Civil Engineers and four other national engineering organizations. The report of the Joint Committee, together with the proposed code, is included elsewhere in this volume.⁴

⁴ See Article by Mr. Christie, page 101.

As regards publications, there has been practically no coöperation among the civil engineering societies, but each has issued its own annual or periodical literature, differing in general style and presentation from that of other similar bodies.

GENERAL TYPE OF CIVIL ENGINEERING SOCIETIES

While there are a considerable number of civil engineering societies such as those mentioned, the Boston, the American, the Canadian, and others, national, state and city, there is a similarity in their type and activities, since, as above indicated, each in turn has been patterned largely upon the predecessors.

The standards for admission to membership in the civil engineering societies as such have usually been considered somewhat more restrictive than those for admission to other engineering societies, following in this respect the standard set by the Boston Society and the larger American. Many professional engineers, looking back over the history of the profession, regard this attempt at creating and maintaining a high but rather narrow standard as one of the misfortunes of the profession, as it would have been possible, a few decades ago, to have brought in and kept in one great national society, all of the engineers, mechanical, electrical, mining, chemical, etc., thus having a body which in strength and influence would have been comparable with the American Bar Association.

Divided, however, as are the engineers in these many specialized or technical societies, they, as a group, exercise a minimum of influence in public affairs. It may be said that until the mining engineer, Herbert Hoover, with his remarkable personality, came to the front, the engineer as

such was little known, or regarded in public affairs. He had been considered as the "hired man," and almost never served as a leader in commissions or on other public bodies. This condition is traceable in part to the fact that the engineers, following the standards which they have set, have not made their strength felt in the large affairs of the state and nation.

FINANCIAL SUPPORT

All civil engineering societies are supported by annual membership dues, these being employed in large part in payment of the salary of a secretary and in the cost of correspondence and publication. A few of the older societies have accumulated a substantial sinking fund, while other civil engineering bodies are adopting the principle of reinvesting the money for the benefit of the existing membership and getting the largest immediate return possible from such investment in current activities.

Compared to those obtained by some of the other professions, the ordinary fees or compensation received by the civil engineers are quite low, and this situation is reflected in the amount of money available for current expenses by the civil engineering organizations. Few, if any, attempts have been made by the civil engineers as such to examine thoroughly the question of compensation, and it has been largely because of this apparent indifference to the fundamentals of individual welfare that a large number of the younger men, who might have been interested in the civil engineering societies, have found an outlet for their energies and an opportunity for helping each other through joining the more progressive American Association of Engineers.

The annual dues of the American Society of Civil Engineers are \$20;

those of the American Association of Engineers, \$15, and of most of the state or city societies, \$10 or less. The number of members in the American Society is over 9,000, and the American Association of Engineers, composed largely of civils, has over 22,000, while in other organizations of civil engineers, the membership is usually below 500. For these dues the members receive an annual report or periodicals, supported in part by advertising.

ENFORCEMENT OF STANDARDS

As a rule, there have been relatively few attempts to protect the standards of practice in the engineering profession. In fact, the safeguarding of the profession is confined as a rule to the examination of the credentials of the applicant. Once admitted, the case must be extremely flagrant before any action will be taken by the organization. In this respect the condition is similar to that of the older professions where the guild or class distinctions and "professional etiquette" prevent criticism of a fellow member. There have been cases where the derelictions of a member have been considered in executive session by the governing bodies, and presumably warnings have been issued, but these cases are usually carefully guarded, not only from discussion by the public but from the members of the society, themselves.

The usual procedure for dealing with those who violate accepted practice is for the matter to be brought before the governing body and referred to a select committee with a view to going into the details, the whole procedure being highly confidential in its nature and the final decision unknown outside of the small group involved. This has had its good and bad effect; good, in protect-

ing the engineer from unfair criticism, and bad, in creating a feeling that the members of the profession are indifferent to practices which apparently have grown up without restraint.

The American Association of Engineers, appreciating this condition, has attempted to handle these cases in such a way that the members and the public in general are informed concerning the results and are thus made aware of the fact that improper practices will not be condoned.

The only penalty which may be enforced by a civil engineering society, for violation of its standards, is expulsion from the society, this being largely a matter not made public. The assumption is that no man who has been admitted would be guilty of improper practice after the careful scrutiny given in advance, and that should he fail to live up to the standards, the fact of dismissal from the society should be adequate punishment.

THE CIVIL ENGINEER AND PUBLIC WELFARE

The civil engineers with their ultra-conservatism have largely refrained from taking part in public affairs, and have not been conspicuous in initiating legislation or regulations for the protection of the public, such, for example, as have characterized the medical profession. It is true that individual members have been prominent in various reforms having to do with better water supply and sewage systems, better roads and bridges, but, as a body, the civil engineers have kept away from active participation in public affairs. In this respect they have not exercised the influence which a group of highly-trained and experienced men should have had.

In a similar way the civil engineers have been extremely cautious in taking any action which might be construed

as sustaining or "backing up" the members of the profession in the individual efforts toward improvement of social, economic, or political relations. Many an able civil engineer has been dismissed from public position, or has been severely criticised, without any outward support from the organization to which he belongs. In fact, the caution displayed has been criticised as bordering upon timidity. In this respect, the civil engineers, as a group, do not appear to have a strength in sustaining sound public opinion at all comparable to that of other groups of engineers or to doctors and lawyers.

From what has been stated before, it appears that, in outward appearance at least, the civil engineers, while individually setting a high standard for themselves, have, as group organizations, not been leaders, nor have they developed the ideals of leadership among the younger men. This is undoubtedly due to the type of education which has tended in the past to emphasize in the mind of the young engineer the ideals of modesty and self-effacement, to "let the work speak for itself" and not to put himself forward in expressing opinions. This is in striking contrast to the attitude presented to the young lawyer, who from the outset is instructed as to his duties, as a man and a citizen, to use his best efforts, not only before the courts but in every public meeting; to help in discussion and to take the leadership which is due to the educational advantages which he has had. He is impressed with the fact that since the public has directly or indirectly contributed to his education, he has a duty in turn to the public to take an interest in its affairs.

The young engineer, on the contrary, impressed with the necessity of accuracy and thoroughness and with the importance of a caution which will

provide a large factor of safety, is inclined to let public affairs take their course until such time as he may be called upon to assist the men who have become practically the self-constituted leaders of affairs.

The greatest need among civil engineers as a group is to correct this false modesty, and, while maintaining a high standard of professional attainment, couple this with the true conception of the duty of an educated man—never to hold back at times when he can be of service to the public.

EMPLOYMENT

In the matter of employment the civil engineers, as distinguished from other professional engineers, have tended to lag behind. In fact, one of the strongest criticisms against the civil engineering societies has been their neglect of this whole problem of the welfare of the young men entering the profession, both in the matter of compensation and of employment. The ideals taught in the schools have been largely those of devotion to the work, such as would make it quite improper for the young civil engineer for many years to give consideration to his compensation or personal comfort. In fact, it has been rather a source of pride, that in the construction camps, in survey parties, and elsewhere, the engineer has worked the longest hours, endured the greatest hardship, and has received a pay less than that of the skilled workman or mechanic.

It has been regarded as unprofessional to consider rates of pay, especially for the lower positions in the ranks of civil engineers, and much criticism was showered upon the American Association of Engineers because it did discuss the proper rates of compensation for the men entering

upon the civil engineering profession, such as draftsmen, rodmen and instrumentmen. It was urged that such action flavored too much of labor unionism.

In the same way, consideration of methods of securing employment was under the ban for many years, and while some of the higher members of the profession who had reached the grade of consulting engineers were ready to discuss proper fees and rates of pay, these men as employing engineers were not at all keen in considering the claims of the great mass of younger men from whom their ranks would ultimately be recruited. It may be said that until the American Association of Engineers led the way in the development of an employment service, the principal groups of civil engineers did not look upon this with much favor.

In short, in studying the code of ethics of the civil engineers, the impression is strong that this has been considered largely with reference to the relatively few men who stand near the head of the profession, and has not taken into view the great body of younger men, recently graduated from college, who have the greatest needs, not only as regards practice but also as regards their inexperience in the profession. For this great body, who form the rank and file of civil engineers and who furnish the greater part of the finances of the organizations, there is a special need of a code of ethics and of specific application of such a code, in order that they may properly pursue a middle course, avoiding, on the one hand, the selfish practices which are attributed to some of the labor unions, and, on the other hand, the extremes of an over-sensitive conscience or timidity which has kept the civil engineers out of the larger affairs of daily life.

Ethics of the Electrical Engineer

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PROFESSIONAL engineers deal primarily with the forces of nature and are, therefore, governed in their work by the laws of nature; as mother nature demands and insists upon absolute obedience to her laws from which there is no appeal and which cannot be circumvented, the engineer is, by the very nature of his profession, brought up to respect and obey the laws which are fundamental to his work. Any violation of these laws is certain to bring its own punishment with it, even without a trial, either in showing the ignorance and therefore unfitness of the violator, or, what is worse, the deliberate practice of what he knew was wrong. Moreover, many human lives are often at stake when an engineering structure fails; hence the engineer realizes that his responsibility in many cases is very great.

As has often been said by way of comparison, the physician can bury his mistakes six feet under the ground, the lawyer can pass the blame to the jury, court, or witnesses, and the minister can often find a quotation from the Bible which, taken literally, may seem to uphold him in a mistake he may have made; but when the engineer makes a mistake or violates the laws which are fundamental to his profession, he cannot hide the blame or pass it to others. Since, then, there is generally no question who is responsible, and no escape from censure, he must be doubly sure of what he does and how he does it. His profession is therefore by its very nature on a high plane, as far as it concerns obedience to the laws of nature, a thorough knowledge of his branch of learning, which involves a higher education

extending over many years, conscientiousness, and regard for the effect of his work on others.

Training in such an atmosphere cannot fail to have an important bearing on the ethics of engineering conduct; the records of the professional lives of many noted engineers bear this out, as does also the ruination, professionally as engineers, of those who have violated the principles of a high code of ethics. "The engineer's intellectual relations with his subject involve a contact with nature and her laws that breeds straight thinking and directness of character and for these the world is constantly according him a higher and more honorable place."¹

ENGINEERING AS A PROFESSION

That engineering is recognized as one of the so-called "learned professions" and as such is in a class with the medical, legal and other professions, is probably now generally conceded, at least when the nature of the work is limited to true engineering as distinguished from commercial work, and is based on high educational qualifications acquired at a college of good standing, supplemented by years of experience and training and the intelligent application of such knowledge. The requirements in educational qualifications and training are quite as great, if not greater than for some of the other professions. But to the mind of the public, unfortunately, the term "engineer" often means the mechanic who operates a locomotive or some other form of engine.

The preceding statements apply to the profession of engineering in general,

¹ (Gano Dunn.)

embracing four main divisions, electrical, mechanical, civil and mining, with many sub-divisions. Though the particular codes of ethics of the various branches may differ somewhat, owing to the differences in the nature of the work, in general they are based on the leading, centuries-old principle, "Do unto others as you would be done by," and not on that modern version of it, used by some business men, "Do others or they will do you."

The "Code of Principles of Professional Conduct" adopted by the American Institute of Electrical Engineers is published elsewhere in this volume.² The present article will be limited to replies to some of the questions which the author has been asked, concerning his profession.

The American Institute of Electrical Engineers, organized in 1884 and having a membership of between 12,000 and 13,000, is the only large, national society of electrical engineers, including in its membership all the leading men of this division of the engineering profession. It may be said to be the law-making organization of this division, and its high motives may be relied upon. It is supported by membership dues and has three grades of members, of which the much coveted highest grade, that of fellow, is restricted to those who have certain high qualifications. Young men have easy access to associate membership; for the advancement to full membership definite requirements are necessary, referring chiefly to the applicant's record and to the reputation he has gained by his work in the past. There are many other societies and organizations dealing with special branches and they may have their own code of ethics, but this is the senior or parent institution for the electrical engineering profession.

² See Appendix, page 274.

That its members have respect for high principles of proper professional conduct is indicated by the fact that no member has ever yet been expelled, though in one case a member whose conduct was being investigated by the Committee on Professional Conduct, resigned before the case was concluded, and his resignation was promptly accepted. A small number of other cases have been considered by this Committee from time to time. At present a recommendation is under consideration that a brief statement of such cases and the actions taken be published in the monthly publication of the Institute, without giving any names.

The clause in the constitution governing the subject of expulsion is as follows:

Sec. 15. Upon the written request of ten or more Fellows, Members or Associates that, for cause stated therein, a Fellow, Member or Associate of the Institute be expelled, the Board of Directors shall consider the matter, and if there appears to be sufficient reason, shall advise the accused of the charges against him. He shall then have the right to present a written defence, and to appear in person or by duly authorized representative before a meeting of the Board of Directors, of which meeting he shall receive notice at least twenty days in advance. Not less than two months after such meeting, the Board of Directors shall finally consider the case, and if in the opinion of the Board of Directors a satisfactory defence has not been made, and the accused member has not in the meantime tendered his resignation, he shall be expelled.

THE NEED FOR PRINCIPLES OF ENGINEERING CONDUCT

From the nature of the different engineering branches, differences arise which have some bearing on professional conduct. Under the broad term of electrical engineers, there are included salesmen, contractors, manu-

facturers, administrators, organizers, financiers, promoters, etc., many of whom may have started as college-bred engineers, but have branched off into these other vocations, for which they were often very well fitted by reason of their engineering training. Their interests are, however, sometimes directly opposed. To manufacturers and those entrusted with the selling of a product or project, "the exigencies of selling are so constantly forced upon them, that it produces in their circles a commercial atmosphere quite at variance with strict professional views," to quote from a leading engineering journal. Technical journals themselves may not always be free from the influence of their advertisers. Another technical journal last year said editorially, "It is to be hoped that the year 1921 will see real progress in the establishment of codes of ethics in the various engineering societies, or, better, the establishment of general fundamental principles of engineering ethics on which the individual societies may build." Still another technical journal asks, "Is engineering a profession or a business?" and implies that it must be one or the other, stating that "we are at the parting of the ways." This distinction refers to the modern large organizations, as distinguished from the individual engineer, in conducting engineering work; it implies the old saying that "corporations have no souls." The differences between the ethics of such large organizations and of the individual engineer is a subject of discussion which space does not permit going into here.

Within the near past, another departure of a somewhat psychological nature has been added to the engineering profession, that of the science of dealing with men, as exemplified in the legend in the great National Engineering Library in New York

City, which states as a conception of engineering: "Engineering—the art of organizing and directing men, and of controlling the forces and materials of nature for the benefit of the human race." The last part of this legend was formerly one of the definitions of an engineer; the former clause has more recently been added, though not by unanimous consent. In the opinion of some, the term engineering is being broadened too far.

It is often difficult to draw sharp lines between the many different practices, as to where true engineering begins and ends. The title of "engineer" is a coveted one, and rightly so, as long as it implies a long and difficult course of education and training, and it is therefore natural that its appropriation is broadening. A code of ethics is naturally a different matter for one who deals with the application of nature's laws of matter and energy for the benefit of mankind, than for one who deals merely with getting the largest number of dollars; though of course the true engineer must of necessity also consider the cost of projects. For the purposes of the present article, however, the term professional engineer may be supposed to apply to those who occupy themselves exclusively with the true profession of engineering, in its older sense of applying the laws of matter and energy to the benefit of mankind by the design, construction and use of engineering structures. The statement of Francis Bacon in the preface to his "Maxims of the Law" applies to professional engineers as well: "I hold every man a debtor to his profession, from the which as men of course do seek to receive contenance and profit, so ought they of duty to endeavor themselves by way of amends to be a help and ornament thereunto."

THE ENGINEER AND PUBLIC SERVICE

As the progress of the world, the comforts of man and his ability to produce, are so very largely due to the work of the engineer, his work is of the very greatest importance; he therefore naturally interests himself also in the public welfare in behalf of which he should "be ready to apply his special knowledge, skill and training for the use and benefit of mankind," and with loyalty to his country, evidence of which was shown in the recent War, which, to a greater extent than ever before, was dependent on the skill of the engineer.

In connection with testimony by engineers in legal cases, a clause in one of the engineering codes says: "To render reports or testimony intended to deceive is highly unprofessional," a maxim which contrasts with the guiding principle of some lawyers: "Win the case; win it honestly if you can, but win it."

The engineer's work is often connected with some form of public service and he is therefore concerned with the public and with public welfare. His obligations to serve the public conscientiously to the best of his abilities are thereby instilled into him; his natural repugnance to act against the interest of the public, or of those in his charge, when urged to do so by his less scrupu-

lous superior officer, perhaps a politician, a contractor or a financier, has cost many an engineer his position.

Untiring efforts are made by those of experience in the profession to advance the standards of education and training of the rising generation of engineers in the schools and colleges; the subject is frequently discussed at the sessions of the American Institute of Electrical Engineers between those who know what is needed in actual practice and those who do the teaching and training; both willingly coöperate to the great advantage of the student.

Any special recruiting for the profession of electrical engineering seems hardly necessary, as the great interest taken by many young men in this branch of engineering seems to be sufficient.

An employment service is conducted by the Institute; in general, any form of service pertaining to electrical engineering, either to its members, the profession, the public, or the government, which is of such a nature that it can best be done by this large national organization, including in its membership all the leading electrical engineers of the country and many in foreign countries, is willingly undertaken and intelligently carried out. In many instances, the Institute has set an example to others.

Procedure in Developing Ethical Standards Adopted by the American Association of Engineers

By H. W. CLAUSEN

Treasurer of the American Association of Engineers; Chairman, Practice Committee, American Association of Engineers

THE maintenance of the proper ethical relations of the professional engineer both with the public and with his fellow engineers is becoming of great importance in the effort to

develop the service of the engineer to its maximum of usefulness. Clearly, one of the essentials to a constructive and vigorous policy leading to the harmonious coöperation of all concerned,

is a definite standard or code of ethics, adherence to which can be relied upon to build up the mutual confidence vital to successful professional service under the complex conditions existing today.

The necessity for a comprehensive code of ethics has been quite generally recognized by the leading engineers of the country and much has already been accomplished in crystallizing professional opinion in regard to the many phases of the subject. A significant forward step has been made by a group of engineers in the formation of the American Association of Engineers. Although many reasons prompted the creation of this association, it may be said that the desire on the part of its organizers for definite machinery capable of adequately and promptly handling the various problems relating to the ethics of the engineering profession was the principal thought in mind. Effective bodies have long been in existence to deal with the technical side of engineering service and in the course of their work much has also been done to advance the standard of practice from an ethical standpoint as well. It was thought, however, that the establishment of the American Association of Engineers would be helpful in providing a means for determining a general code of ethics and in interpreting that code in specific problems of everyday practice; and that, further, it would provide a prompt means of taking disciplinary action in the enforcement of penalties for violations of the standards set up to govern practice, wherever such action would be in the interest of the public welfare.

REASONS FOR A WRITTEN CODE

It may be said with some justification that the standards of good citizenship and of honest dealing form a sufficiently exact body of principles for the great majority of the engineering pro-

fession, and that for such men as make up this majority anything further is superfluous and unnecessary. Certainly engineers, although belonging to what is commonly felt to be one of the newer professions, have demonstrated and are now showing as high a conception of honorable and upright public service as any of the older professional groups. But the acceptance of a practical code of ethics by the members of a profession is a declaration of their faith for all the world to know and there are times when recourse to this written standard would serve as a helpful guide, as does the chart to the navigator.

This is especially true of the younger men in the profession who are naturally students of precedent and who are anxious to guide their practice in strict conformance with established principles. Moreover, it would be untrue to say that there are no departures from the highest ethical standards on the part of engineers. Here and there are examples of deliberate unprofessional conduct injurious to the public welfare and to the engineering profession. Disciplinary action in such cases would, if properly taken, do much to raise the profession of engineering in the public mind and would react favorably upon those engineers whose practice is founded upon truth, honesty and duty.

An army without the necessary discipline thoroughly to control its members often suffers immeasurably from the action or lack of action, as the case may be, of a few irresponsible individuals whose conceptions of duty are warped by selfishness and whose aims are remote from those dictated by the principles of service to a higher cause.

The first step in the work of the American Association of Engineers, then, was the development of a written code of ethics, a statute, as it were, which would be generally regarded as correct

and enforceable. With a view to making the first draft of this code a clear-cut unequivocal statement of high principles, the responsibility for writing it was placed upon an individual. Isham Randolph, now deceased, an engineer of outstanding character and integrity, was selected and he wrote the code which is printed in full on page 277. It has attracted wide attention and favorable comment as being an assembly of principles recognizing the importance of enlightened self-interest on the part of the individual engineer and yet broadly emphasizing the responsibility of the engineer to his client and the public.

It is an exceedingly difficult task to draw up a code which will in a single document provide adequate expression for the ideals of the profession and at the same time set forth detailed rules of conduct. It seemed necessary, therefore, for the Association to appoint a Practice Committee, the duty of which is to interpret the code of ethics for every-day use. This interpretation is done by the consideration of particular cases and problems in a broad and general manner, with names, locations, etc., omitted, and decisions are then arrived at, based upon the specific facts given. The decisions of this Practice Committee are next referred to the National Board of Directors as recommendations. If approved, they are published and act as precedents for professional conduct under similar circumstances. These decisions may be roughly compared to court decisions in common law.

To provide for any appeals which may be made from Practice Committee decisions, a judiciary committee will be formed which will have disciplinary power for the enforcing of penalties upon violators of the code of ethics or of decisions of the Practice Committee.

As an example of the problems con-

sidered by the Practice Committee the following cases which have been passed upon and approved may be of interest:

Case 15

A firm of engineers by name of A, located at B in state C, advertise and sell their services as consulting engineers. They are also manufacturers' representatives for several of the largest manufacturers in the United States. Among others they act as consulting engineers for the city of B and on work which they recommend and on which they write specifications. They also give prices to contractors and bid on the machinery.

Question.—Is it ethical for A to sell their services as consulting engineers to the city of B and also, acting in the capacity of sales engineers or manufacturers' representatives, to furnish prices on the commodities that they sell to contractors bidding on the work of city B when A makes a recommendation of award?

Answer.—Generally, no. There might be a peculiar combination of circumstances where this might be correct, but never should it be undertaken without the fullest of publicity and then only in cases where the public interest demands it.

Question.—In the above, would the situation be altered if A made a direct bid to city B for the required commodities or machinery?

Answer.—Generally, no. Exception under conditions mentioned above.

Question.—As a general policy is it ethical for engineers to design work or write specifications for clients and also have an interest, direct or indirect, in the materials, equipment or other things going into the construction work of the clients?

Answer.—As a general policy it is not ethical for engineers to have an interest direct or indirect in the materials, equipment, etc. going into the construction work of their clients except that the clients be advised in advance of the nature of the interest of the engineer and sanction of the client be obtained.

Case 16

A is engineer for a county and receives his pay in fees for the design and supervision of engineering structures let by the county under contract to builders. Another engineer, B, proposes an alternate solution for one of A's problems, engineer B to receive his compensation from the builder who submits B's plan as an alternate. The statutes of the state provide for this method. The compensation for A is the same whichever plan is used, and the alternate structure must ultimately have the approval of A.

Question.—Is it unprofessional or unethical for engineer B to propose an alternate solution through a bidder?

Answer.—No.

In the above question, suppose engineer A opposes the alternate plan and charges B with unethical practice.

Question.—If the practice is held to be ethical, then is engineer A unprofessional when he charges engineer B with unprofessional practice?

Answer.—Yes, if B's proposition is made in good faith for the public benefit; however, A should not be considered unethical for an honest expression of opinion, so long as it was courteously stated.

Engineer A and engineer B each prepare alternate plans for contractors to submit bid at a letting. The owner then employs engineer C to determine which of the two is the better solution. Engineer C condemns both and seeks employment to redesign the structure himself, thus eliminating both of the engineers, A and B.

Question.—Is the practice of engineer C ethical?

Answer.—It is a question of intent. If A's and B's plans were faulty or unduly expensive to build, it would be the duty of C to so report. He should, however, not seek the work for himself. In the event that the owner desires C's services, it would not be unethical for C to undertake the work, preferably having A and B satisfied as to his conduct in the matter.

The report of the Practice Committee of the American Association of Engineers made at the last annual convention in 1921 brings out interesting points concerning the actual method of procedure.

Cases coming before the Practice Committee seem readily to fall into two general classes. The first class includes those of a general character involving questions of ethics and professional practices concerning which there is no dispute as to the facts but only as to whether the acts or practices in any given case are in accordance with the adopted code of ethics of our profession and society. In a certain sense, the decisions of the Practice Committee as approved by the Board of Directors in such cases, becomes the common law in engineering practice, the same as the decisions of our civil courts do in every-day life. These decisions are subject to change from time to time as engineering opinion becomes more and more crystallized resulting from experience and investigation. They are of prime importance because they are written and can be referred to from time to time.

The second class comprises those cases concerning which there is no agreement as to the facts but on the contrary a decided disagreement as to same. Naturally from such a state of affairs a controversy can develop which may be far-reaching as to its effects on the welfare of individual engineers, the profession, and the good will of the public. Such cases usually involve considerable personal feeling and unless properly decided will result in great injury.

Cases of the second class require careful handling and should not be decided except after a thorough examination of all facts and circumstances surrounding the controversy. In some of these controversies an investigation or open hearing should be held to which all parties interested in the controversy, including the witnesses, should be invited to attend. Plaintiff and defendant should each have a counsel or aid which should be an engineer, not an attorney, and the proceedings should be carried on according to the legal rules of evidence and written record of such rules. Obviously

the reason for this is only to bring out clearly the facts and reduce the written record of the court reporter to a minimum. All witnesses whose testimony is to be considered competent should be required to submit to voluntary oath. It should be the duty of the Chairman of the Practice Committee, or if he is unable to serve, another member of this committee designated by him, to conduct such a hearing and in regular course of routine to render a written decision setting forth the charges made, the facts brought out, and the findings.

The appeal from such a decision should not, in the opinion of your Chairman, be to the Board of Directors. The size of the Board and requirements of time and attendance in person at the meetings make it practically impossible to acquaint the Board members with all the evidence in detail. Such a body, already busy with matters of the highest importance as regards our association, would necessarily as a matter of routine have to approve a decision made by the Chairman of the Practice Committee because they, in the very nature of things, could not each and all have the intimate acquaintance with the facts necessary to insure an independent decision.

In the opinion of your Chairman, the appeal from the decision of the Practice Committee in cases of this character should be to a higher tribunal, known as the Judicial Committee, to consist of not more than three members qualified and appointed as recommended by your Committee on Revision of the Constitution. This committee should have the power to enforce its own decisions and those of the Practice Committee by the expulsion of the transgressing member without recourse to a higher authority. Such a court would insure a proper and thorough consideration of all the facts in any given case and its work would react to the benefit of the profession as a whole.

Last year, attention was called to the desirability of giving particular attention to the engineer in public service. Evidently because of insufficient publicity our members are not familiar with the resolutions passed by the last convention relative to the

proper conduct of an engineer in public service when confronted with conditions not conducive to the public welfare. At least only one case was brought to the attention of National Headquarters, which was disposed of promptly. Engineers in public service hold a tremendous potentiality for good or evil practice so far as public welfare is concerned. If the collective conscience of engineers would only grasp the opportunity for real public service, some considerable progress in public esteem and confidence would result to the profession generally and worthy engineers individually. To do this the profession must clean house and our society should be the leader in showing the way. Wherever opportunity affords, a member, guilty of accepting a public engineering position of responsibility without possessing the requisite experience, knowledge, skill or ability to properly fulfill the office, should be advised thereof and show cause why a resignation would not be in order. Similarly, when there is evidence that such a position has been given to the recipient because of his willingness to "take orders" from unscrupulous politicians contrary to sound public policy.

The great city of Chicago and state of Illinois are not controlled by the same faction of a political party. The public press publishes reports concerning the gradual undermining and abolition of efficient engineering departments and bureaus and the replacement thereof with political henchmen, resulting in a great loss to the public and injury to old, experienced and efficient engineering employees. In the interest of the individual engineers injured by this process, the profession generally and the public good, the truth or falsity of such charges should be verified and therefore the following resolution is offered for your consideration:

Resolved, That the various chapters of the American Association of Engineers in the state of Illinois, independently or collectively as they may elect, investigate in a thorough and painstaking manner the status of the practice of engineering in that state and political subdivision thereof. The Board of Directors are instructed to afford assistance and guidance if requested by

the various chapters and the various chapters are required to make progress reports each three months to the Board of Directors so that a full and comprehensive report will be ready for the next annual convention for its consideration. The President is directed to use the influence of his office to the end that such investigation is promptly begun and diligently prosecuted and results of such investigation given proper publicity for the common interest of the profession and public.

During the year six formal cases, Nos. 13, 14, 15, 16, 17 and 19, were considered by your committee and approved by the Board of Directors and published in the *Professional Engineer* in accordance with our Constitution and By-Laws. Case No. 18 was handled by your Chairman alone and

finally disposed of by your Board, but as yet has not been published. Besides the above a considerable number of cases, not of general interest, were handled by your Chairman informally.

Obviously the problem facing the Association is a large one, and its work is beset with difficulties of many kinds. The danger of injustice to individuals is ever present, but the guiding principle of service, honest service based upon truth, can, in the hands of farsighted forceful men, be relied upon to lead on to a better understanding and to a sound conception of the duty of the engineer whether in public or in private practice.

Shall Corporations Be Authorized to Practise Engineering?

By WILLIAM J. WILGUS

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SHOULD a corporation practise engineering? The layman will perhaps at first thought reply in the affirmative, always with the provision, however, that the engineering service so rendered conforms with the best professional standards of practice; and yet the question is by no means so easily answered when considered from all sides and especially from the point of view of public expediency.

Is it not generally recognized that a corporation is organized and administered primarily for gain? We are not here speaking of that class of corporations which serve a philanthropic or charitable cause, but of the every-day business corporation, aggressively "on the make" as it were, and reaching out vigorously to increase its power and earning capacity. All such corporations of this latter class as are ably administered, strive to perform some

economically useful service. Those wholly or partly engaged in engineering doubtless endeavor to furnish their clients or customers with engineering advice and skill consistent with the highest standards of the engineering profession. But considering the very nature of the corporation, is it possible to accomplish this purpose?

May we not draw this comparison between the purposes of a corporation and those of a profession? On the one hand, a profession is commonly regarded as, and may be defined as, a vocation having to do with the instructing, guiding and advising of others, or with serving them in some art, calling, vocation, or employment within the limitations not only of law but also of rules or standards known as a code of ethics. On the other hand, a typical engineering corporation is organized, and its work carried on, for the purpose

of monetary gain. It functions, of course, within the limits proscribed by law but it is not a subscriber, speaking broadly, to any code of ethics, professional or otherwise. It acts as a corporate entity, and the liability of its individual owners is strictly limited. In a sense, it is an instrument, often with large financial responsibility, but without soul. Its policies are of necessity those dictated by expediency from its own self-interested standpoints; its object, dividends, and these as large as is consistent with sound commercial policy. It has been well said that "business has gain as its principal aim while a profession has service as its lodestar, with gain as a by-product."

THE CONFLICT OF INTERESTS

An engineer retained by his client occupies the same relative position as the lawyer or doctor. His client's interests are his interests in so far as they are compatible with truth, ethics and scientific knowledge. His work is the solution of the engineering problems of the undertaking in such manner as to provide for his client, engineering skill, unbiased by self-interest and free from any outside influence or pressure which could be detrimental to his client.

Not so the corporation, with an engineering staff, highly skilled though it may be, financed by bankers and perhaps influenced and even controlled by manufacturers. Here we have many interests and often those of the engineering staff, ordinarily supposed to represent the client, that is to say, the public, are sadly subordinate. The manufacturers believe their products to be the best obtainable for the purposes of the "client." Why, then, should not the engineers which the corporation employs be requested to specify them? When we consider the position of the individuals composing the engineering staff of such a company

we recognize at once the fact that there are two masters to be served. Is it remarkable that the interests of the client inevitably suffer under such conditions?

In view of the arguments thus far presented it seems fair to assume that no group of non-engineers can hope, under the guise of an engineering corporation, to offer engineering services without at least arousing suspicion as to their real purposes. It is emphatically not in the public interest for a corporation ostensibly to pose as a professional body when its allied or collateral interests are such as to influence its engineering judgment. Engineers with a full appreciation of the ethics of their profession, resent undue influence exerted upon them which will in any way hamper their freedom of action or of thought. It is therefore difficult to see how these engineering corporations are to provide themselves with the highest grade of engineering talent, or, indeed, with any engineers at all, except those who are willing to subject themselves and their work to the suspicion of improper influence on the part of their employers.

The following quotation from a letter addressed to the Governor of New York by a committee of leading engineers forcefully presents arguments against the licensing of corporations for the practice of engineering.

What is viewed by us with alarm is the sanctioning of a condition under which an engineering corporation may have bankers, manufacturers and contractors on its board who may so dominate its policy as to influence its management, including its engineering employes, in the preparation of reports, plans, contracts and specifications and in the supervision of work, in such manner as to favor the outside interests of such directors to the injury of the client (the public). This is no idle fear. In the case of common carriers this practice of interlocking directorates is forbidden by law.

The professional engineer in the employ of an engineering corporation or unrestricted partnership, made up in whole or part of non-engineers, is relegated to a position of anonymity or that of the servant, relieving him of all professional responsibility to the client and placing him under the direction of those whose primary interest is a banker's or contractor's profit.

The professional engineer who signs a report or an engineering plan or specification is personally responsible. The engineer who works for an engineering corporation controlled by bankers or contractors is responsible only to the corporation upon which no equivalent responsibility is imposed by the State.

In a word, the engineering corporation, by which the engineer is employed or with which he is associated, is responsible only in a legal sense, and cannot be held for violations of a code of ethics to which it is not a subscriber.

The interposition of the impersonal corporation between the client and the professional engineer frees the latter from the responsibility for the unprofessional acts of his employer.

Corporations are free blatantly to advertise and to solicit patronage, while independent engineers are restrained from doing so either by good taste or by professional ethics. In fact there are well-known instances of practices by engineering corporations and unrestricted partnerships which are in direct violation of the professional ethics to which some of their officers or members in their individual capacities have subscribed. This is unfair to the independent engineer and destructive of that high respect for the profession which is of public concern.

It has been said that the public interest will be best promoted by recognizing by law the right of corporations to practice the profession of engineering, because the tendency of the times is in the direction of the performance of work by corporate aggregations of capital and brains not feasible in the case of the individual or independent engineer. This may perhaps be effectively answered by pointing to recent work of

great magnitude performed under the direction of independent engineers, as follows:

1. Barge and ship canals, including terminals.
2. Catskill Water Supply.
3. Subway system of the City of New York.
4. Great tunnels and bridges.
5. Great railway terminals, including the Grand Central and Pennsylvania Railroad New York terminals.
6. Electrification of steam railroads, including the New York Central, Pennsylvania and Long Island railroads, with their collateral improvements.
7. Rehabilitation of great trunk lines for heavy motive power.
8. Vast system of highway improvements.
9. Port, railroad and other construction required for our Army at home and abroad.

A further answer to this statement lies in recent disclosures in the business world. Certainly it is not in the public interest to favor the interposition of ethicless-business between the professional engineer and the public.

It would be clearly wrong to restrict or hinder the employment in a professional capacity of engineers by corporations, but it is certainly not in accordance with engineering ethics for these corporations to offer the services of their employed engineers to the public; nor is it for the public good. The corporation composed entirely of engineers, all adhering to the recognized standards of professional ethics and without "entangling alliances," may be able to render effective service. There seems to be no adequate grounds, however, for the incorporation of such a body of engineers and there are strong reasons against it, chief of which, perhaps, is the suspicion rightly or wrongly attached by the public to any corporate body posing as professional and professing its allegiance to professional ideals.

A Proposed Code of Ethics for All Engineers

By A. G. CHRISTIE

Professor of Mechanical Engineering, Johns Hopkins University, and Chairman of the Joint Committee on Ethics of American Engineering Societies

ENGINEERING is slowly establishing itself as a profession. Some people question whether it is a true profession or a business. Let us note how a profession is defined and then we can determine at once whether the term "profession" applies to engineering.

A professional man must have obtained some preliminary attainments in special knowledge and some measure of learning, as distinguished from the mere skill that comes from experience as an administrator or as a mechanic. He must also apply such knowledge in practical dealings with the affairs of others, rather than in mere study or investigation for his own purposes. A professional career implies a sense of public responsibility for the accomplishment of certain social objectives. In other words, the professional man must be ready to render public service where his special training and experience makes him particularly fitted to do the work. Finally, he must adhere to the code of ethics of his particular profession, which should be so well known by the public that they understand what to expect of that particular class of professional men.

The engineer is being called upon more and more to render public service. He possesses special knowledge of his particular branch, which he applies practically in advising others or in serving their interests or welfare in the practice of the art of engineering. It is quite logical, therefore, to conclude that engineering can be ranked among the professions, together with law and medicine. It is secondary that, up to the present time, engineering has not had a common code of ethics well

known to the public at large, although individual societies have had their own codes.

NO ESTABLISHED CODE OF ETHICS AMONG ENGINEERS

The profession of medicine has had an ethical code since the days of Hippocrates and possibly even earlier. As law courts developed, custom and usage established certain requirements of an ethical character to be fulfilled by those who practised in the courts as lawyers and by those who administered the law as judges. The ethical standards of these two professions have been slowly developed throughout the centuries, until now both have well defined and very complete codes, covering all the usual contingencies that may occur in professional practice. These respective codes serve to maintain the dignity of profession and its high regard by the general public because they are accepted by most doctors and lawyers, and are carefully administered.

Engineering, on the other hand, is a relatively young profession. True, there were military and civil engineers in the old days and many of the instruments still in use were first developed by the ancients. However, the great inventions about the middle of the eighteenth century and the industrial development that followed during the early part of the nineteenth century, turned men's minds from philosophy towards the study of science and its applications to the uses and conveniences of man. New branches of engineering developed as the art broadened, until there were at least three well-recognized branches of the profession, viz., civil, mining and mechanical

engineering. Afterwards electrical, chemical, metallurgical, sanitary, automotive and many other branches of engineering came into existence.

In the early days there were no technical schools or universities to train men for engineering. The young engineer secured his training by years of apprenticeship under one of the older men or else he applied himself mentally and physically to some particular problem until he became a master of it, and thus became leader in his particular line of endeavor. This was the case of the late John Fritz, one of America's pioneers in steel production. Later on, colleges of engineering were founded. While many leading engineers of the present day have not had the benefit of a college education, they have, by their own personal efforts and achievements, well earned for themselves the right to be considered members of the engineering profession. The diversity of the engineering profession and the various methods by which one may train himself to be an engineer, are the main factors that differentiate engineering from the professions of law and medicine and make it extremely difficult to formulate any legal regulations concerning who may call themselves engineers.

In law and medicine all who enter the profession must pursue certain definite courses of study and must demonstrate by examinations before recognized boards that they have achieved a degree of proficiency in certain fundamental studies before they are admitted to practise their vocation.

In engineering, on the other hand, there have been many engineers of the highest rank, like George Westinghouse, Thomas Edison and John Fritz, who would have been debarred from the profession if they had had to pass examinations for admission. It is this wide diversity in the character of training for the engineering profession that

makes it practically impossible to require engineers to be licensed by examination. It is also a serious obstacle in the way of the formulation of a common code of ethics. Engineers have not been trained to take any specific viewpoint regarding professional conduct, and practice in the various branches therefore differs in certain details. In the future it should be the function of engineering colleges to develop among students a greater sense of professional unity than at present, and a better understanding of what constitutes proper professional conduct as expressed in the common code of ethics. Such action will greatly enhance the honor and dignity of the engineering profession.

ORGANIZATION AMONG ENGINEERS

The lack of an engineering literature in the early days led engineers to come together in societies for the interchange of technical information. The first of these was the Institution of Civil Engineers in England, established on January 2, 1818. The objects of this historic institute were stated as follows: "For the general advancement of mechanical science and more particularly for promoting the acquisition of that species of knowledge which constitutes the profession of a civil engineer, being the art of directing the great sources of power in nature for the use and convenience of man."

The first American organization was the Boston Society of Civil Engineers, organized July 3, 1848. The American Society of Civil Engineers was organized in 1852, followed by the American Institute of Mining Engineers (now the American Institute of Mining and Metallurgical Engineers), started in 1871. The American Society of Mechanical Engineers was founded in 1880. The American Institute of Electrical Engineers was organized in

1884. The American Society of Heating and Ventilating Engineers was established in 1894.

Probably the first engineering organization to develop a code of ethics was the Institute of Civil Engineers in England. Their code, consisting of only six clauses, set the standards of the profession in England for many years, and is still followed.

During the early years of each of the American organizations, its membership was generally limited to the leaders of that respective branch of engineering. These men devoted themselves largely to interchange of technical information in order to broaden their experience in their particular line. Later on, practical engineering standards received attention. These two factors, the exchange of technical information and the establishment of engineering standards, are still the most important functions of our leading engineering societies.

Within the last two decades engineers have turned their attention to administrative as well as to purely technical work and have applied the engineering methods of analysis to business and even to the problems of government. Engineers, in many capacities, rendered professional services of the highest order during the late World War. In fact, it has been called an "engineers' war." In Canada, Mr. Thomas Deacon, an engineer, was Mayor of Winnipeg during the years of its most rapid development, and conceived and put through many of the most important of the city's undertakings. Mr. Herbert Hoover, an engineer, as Director of the Belgian Relief during the European War, and later as Secretary of Commerce in the United States, has rendered public service of a high order.

The general public has been slow to recognize engineering as a profession and has failed until recently to dis-

tinguish between the trained engineer and the mechanic or contractor. This is largely due to the fact that engineers have had no established common rules of professional ethics that they recognize among themselves or that are generally understood. The public knows that doctors and lawyers are bound to abide by certain recognized rules of conduct. Not finding the same character of obligations imposed upon engineers, people have failed to recognize them as members of a profession.

EARLY ATTEMPTS AT THE FORMULATION OF A CODE

About fifteen years ago this situation received the attention of leaders in various American engineering societies, and committees were appointed to draw up codes of ethics for several of these organizations. These committees did excellent pioneer work and wrote some splendid codes which, when analyzed, show that the same high motives prevailed in the various branches of engineering, although expressed differently in the several versions. The early codes can be found in the publications of the various organizations. Naturally there were some points on which the different codes were not in agreement. A difficulty arose when the question of administering these codes came up for consideration, due to the fact that what was forbidden in one code might be tolerated in another. The engineer who belonged to more than one society was frequently in a dilemma from these conflicting rules. The codes in each case simply reflected the practice of the profession at that time. Engineers had not then reached the point where they acted as a unit. Committees on professional conduct were appointed in various societies, but due to insufficient authority and to other causes, they have never functioned in the way that

they were intended. This was partly due to the attitude of engineers themselves. They have been reluctant to act as policemen and to inaugurate a case against a fellow engineer, even though he may have been guilty of professional misconduct. The medical societies, on the other hand, spend large sums each year in keeping fakers and dishonest practitioners out of the profession,

Furthermore, the constitution of certain of the engineering societies lacked any provision for disciplining its members when found guilty of such misconduct. Hence these administrative committees usually ceased to function, and the codes of ethics of such societies have generally been forgotten. The membership of all organizations has increased rapidly in recent years and many of the present members do not know that their particular organization ever had a code of ethics. In fact, even the president of one of the national societies recently ruled from the chair that the society had no code of ethics, as he was not a member when one had been adopted several years earlier and it had never been called to his attention since he became a member.

The late Isham Randolph, of Chicago, wrote an excellent code entitled "The Engineer's Applied Ethics" for the American Association of Engineers, and, to their credit, it should be said that they have made a sincere effort to administer this code effectively.

The late war brought about a spiritual awakening throughout America, and this led many engineers to give serious consideration to the status of their profession. During the fall of 1919, Dean M. E. Cooley, then President of the American Society of Mechanical Engineers, appointed a committee, of which the writer was chairman, to report on the code of ethics of

that society and its administration. Only one member of the committee, Mr. Charles T. Main, had previously taken much interest in professional ethics. Some time had therefore to be devoted to a study of ethics and of the society's code which had been adopted in 1913. In the spring of 1920 the committee reported to the society that the former code seemed too long and had been generally forgotten by the members. A preliminary draft of a shorter code was offered for discussion. This was referred back to the committee, who gave the matter further consideration. A second report was presented at the annual meeting of the society in December, 1920, where a provisional draft of a code of ethics and suggestions for its administration were debated at length. The committee appreciated the desirability of a common code of ethics for all engineers in every branch of the profession and suggested that action be taken to prepare such a common code. The society again referred the report back to the committee with the recommendation that an effort be made to prepare such a common code of ethics for the whole engineering profession.

ORGANIZATION OF THE JOINT COMMITTEE

In the meantime the Federated American Engineering Societies had been organized and the engineering profession had gained a new feeling of unity of purpose. At first it was thought that the preparation of a common code of ethics should be undertaken by the new federation. However, this organization had already undertaken the investigation of waste in industry and other urgent matters were demanding its attention. It was therefore thought best to leave the matter of a common code of ethics with the member societies. It was further considered advisable to

have a relatively small informal committee to prepare a code, rather than a large unwieldy formal committee. Invitations were therefore sent to several representative societies to delegate certain of their members to serve on this informal committee. This action was taken by most of the societies. The American Institute of Electrical Engineers, however, left the question in the hands of their Committee on Professional Conduct, who afterwards took part in the informal deliberations on the code.

The Joint Committee faced a tremendous problem. Doctors and lawyers serve a limited clientele in what might be described as a consulting capacity, corresponding in a way to the consulting engineer. A vast majority of engineers are employed by corporations, commissions, governmental bodies and private individuals in administrative, managerial, sales, manufacturing and technical work. A lesser number are consulting engineers. It is a difficult task to define the obligation of engineer to client or employer and the attitude of the engineer to fellow engineers, to the public, and to technical and other educational institutions. Since the committees appointed to administer the former codes had dealt with practically no cases, there were no so-called "court decisions" to assist the Committee in defining good professional conduct. Furthermore, there were differences in practice on certain details among the various professions which had to be harmonized. The Joint Committee, at its first meeting, therefore, decided that a short simple code of ethics, expressed in general terms, was the only one possible under the present circumstances and further, that the code should, if possible, be no longer than could be written on a single sheet of typewriter paper, so that it might be more easily kept

before the members of the profession. Such a code would be less likely to be laid aside and forgotten than a lengthy explanatory dissertation.

It is human nature to dislike rules that prohibit certain acts, such as "Thou shalt not do so-and-so." It was therefore the opinion of the Committee that the new code would make a stronger appeal and would have greater dignity if expressed in positive rather than negative language, and this idea was paramount in the formulation of the code. Committees on professional conduct were recommended in each society to interpret and administer the new code and a committee to act as a supreme court was suggested to harmonize interpretations among the different societies. If this procedure is adopted it will be possible in later years to have another committee add either additional clauses or explanations to the code based on the decisions and interpretations of these committees and on the development of professional thought among engineers themselves.

Men do not always understand the same meaning to be conveyed by a certain word. Hence even after the fundamental ideas of good professional conduct had been agreed upon, and a rough draft of the code was prepared, much time was spent in clothing these ideas in simple English words that would be acceptable to the whole Committee. Valuable assistance in this work was rendered by friends in the legal profession and by certain professors of English. The task, however, was finally accomplished and the final report of the Joint Committee reads as follows:

REPORT OF THE JOINT COMMITTEE ON A CODE OF ETHICS FOR ENGINEERS

The Joint Committee consisting of representatives of the American Society of Civil Engineers, the American Institute of Min-

ing and Metallurgical Engineers, the American Society of Mechanical Engineers, the American Institute of Electrical Engineers, the American Society of Heating and Ventilating Engineers, appointed to consider a Code of Ethics for Engineers, recommends, after deliberate consideration, that each participating Institute or Society adopt the short simple Code of Ethics which follows:

A CODE OF ETHICS FOR ENGINEERS

Engineering work has become an increasingly important factor in the progress of civilization and in the welfare of the community. The Engineering Profession is held responsible for the planning, construction and operation of such work and is entitled to the position and authority which will enable it to discharge this responsibility and to render effective service to humanity.

That the dignity of their chosen profession may be maintained, it is the duty of all Engineers to conduct themselves according to the principles of the following Code of Ethics:

1. The Engineer will carry on his professional work in a spirit of fairness to employes and contractors, fidelity to clients and employers, loyalty to his country and devotion to high ideals of courtesy and personal honor.

2. He will refrain from associating himself with or allowing the use of his name by an enterprise of questionable character.

3. He will advertise only in a dignified manner, being careful to avoid misleading statements.

4. He will regard as confidential any information obtained by him as to the business affairs and technical methods or processes of a client or employer.

5. He will inform a client or employer of any business connections, interests or affiliations which might influence his judgment or impair the disinterested quality of his services.

6. He will refrain from using any improper or questionable methods of soliciting professional work and will decline to pay or to accept commissions for securing such work.

7. He will accept compensation, financial or otherwise, for a particular service from

one source only, except with the full knowledge and consent of all interested parties.

8. He will not use unfair means to win professional advancement or to injure the chances of another engineer to secure and hold employment.

9. He will cooperate in upbuilding the Engineering Profession by exchanging general information and experience with his fellow engineers and students of engineering and also by contributing to the work of engineering societies, schools of applied science and the technical press.

10. He will interest himself in the public welfare in behalf of which he will be ready to apply his special knowledge, skill and training for the use and benefit of mankind.

These ten general clauses can, in the opinion of the Committee, be interpreted to cover all cases of questionable conduct that may arise in the engineering profession. It will be necessary during the first few years following their adoption, to have many specific interpretations rendered on certain clauses where professional practice is not wholly standardized. The Committee recognized this need and gave much consideration to methods to meet this situation and to permit the adjustment of engineering thought to single viewpoints as developed in the administration of the code. The standing committees on professional conduct in each organization and the Joint Committee of all organizations will serve to make workable rules of these clauses.

In order that this code should not prove a dead letter on each society's records, the Joint Committee made the further recommendations in its report to care for the administration of the common code of ethics as follows:

The Committee further recommends that the following method of interpreting and administering the Code be adopted by each participating Institute or Society after any necessary provisions have been made in the Constitution and By-laws of the organization.

"The President of each Society or Institute shall appoint a *Standing Committee on Professional Conduct* to administer the Code of Ethics. The duties of such a Committee shall be to interpret the Code and to render opinions on any cases of questionable conduct on the part of members that may be submitted to the Committee. These interpretations shall be reported to the Executive Board of the Institute or Society who may approve these interpretations, or take such other action as may seem just and necessary. The reports of the Committee on Professional Conduct when approved by the Executive Board, shall be printed in abstract and in anonymous form in the Institute's or Society's monthly journal for the instruction and guidance of fellow members.

This Committee on Professional Conduct shall be appointed in each Institute or Society by the President holding office at the time of the adoption of this Code and shall consist of five members, one appointed for five years, one for four years, a third for three years, a fourth for two years and a fifth member for one year only. Thereafter, the President then holding office shall appoint one member annually to serve for five years, and shall also fill any vacancies that may occur for the unexpired term of the member who has withdrawn. These appointments shall be made from among the older members of the Institute or Society, so that advantage may be taken of their mature experience and judgment. The Committee after appointment shall elect its own Chairman and Secretary. The Committee shall have power to secure evidence or other information in any particular case, not only from the organization's own members, but if it should seem desirable, from men in other professions. The Committee may also appoint sub-committees to consider certain cases when deemed necessary.

This Committee shall investigate all complaints submitted to it by the Secretary of the Institute or Society bearing upon the professional conduct of any member and after the member involved has been given a fair opportunity to be heard, the Committee shall report its findings to the Executive Board of the Institute or Society. This report may in some cases suggest certain procedure to the Executive Board.

The Executive Board of the Institute or Society shall have power to act on the recommendation of the Committee on Professional Conduct, either (1) to censure by letter the conduct of the member who has acted contrary to the Code, if the breach is of a minor character, or (2) to cause the member's name to be stricken from the roll of the Institute or Society.

Copies of all reports made by a Committee on Professional Conduct to the Executive Board of each Institute or Society shall be furnished to each other Committee on Professional Conduct administering the Code. This will keep each Committee advised of the interpretations of other Committees, and in time an extended interpretation of the Code can be written based on the reports of the various Committees on Professional Conduct.

As interpretations of the various Committees on Professional Conduct administering this Code may vary at times, it is recommended that the Chairmen of these Committees of the various Institutes or Societies be authorized to act as a Joint Committee to review such differing interpretations and to bring them into unity with one another.

As a matter of record, it is interesting to note the representative character of the Joint Committee, which was composed of the following members:

JOINT COMMITTEE ON CODE OF ETHICS

A. S. C. E.—C. C. Elwell
 A. S. C. E.—A. M. Hunt
 A. I. M. & M. E.—J. Parke Channing
 A. I. M. & M. E.—Philip W. Henry
 A. S. M. E.—A. G. Christie, *Chairman*
 A. S. M. E.—H. J. Hinchey
 A. S. M. E.—Chas. T. Main
 A. S. M. E.—J. V. Martenis
 A. S. M. E.—Robert Sibley
 A. I. E. E.—Comfort A. Adams
 A. I. E. E.—G. Faccioli
 A. I. E. E.—George F. Sever
 A. I. E. E.—L. B. Stillwell
 A. I. E. E.—S. S. Wheeler
 A. S. H. V. E.—Frank T. Chapman
 A. S. H. V. E.—S. A. Jellett
 A. S. H. V. E.—Perry West

This is the first joint endeavor of American engineers to provide the very necessary ethical standards of their profession. Since the code is in general terms only, many will wish further interpretations and explanations of the various clauses. Much might be written on this subject and some additional thoughts might be contributed. The code, however, has not been accepted as a professional standard at the time that this is written. Any elaborations would therefore be merely personal opinions of the writer which might later prove embarrassing to committees on professional conduct. It therefore seems best at the present moment to attempt no further discussions of the various clauses.

The mere fact that such a code has been drafted by such a representative committee is in itself a significant accomplishment. A few years ago engineers publicly stated that such a thing could not be done. Even if the report and code are adopted, much still remains to be done. Decisions and interpretations by the various committees will crystallize still further the

common professional standards and will consolidate engineers as a professional body. An excellent suggestion is that every graduate of an American engineering college should be required to affirm the code before he is granted his degree and starts on the practice of his profession.

While engineers generally regard themselves as members of a profession, the public has not heretofore given them a full measure of professional recognition because the average person has no clear idea of the professional obligations of an engineer. This recent attempt to express the ideals of honorable engineering conduct and the engineer's attitude towards the affairs of life will command the interest and respect of the average citizen and will exert a tremendous influence toward securing for engineering the full measure of respect as a profession that is its just due. With such an objective in view it behooves every engineer to give the new code his fullest support so that he may thereby enhance the honor, dignity and respect of his chosen profession.

Public Interest and the Architect

By M. B. MEDARY, JR.

Philadelphia, Pennsylvania

Fellow, American Institute of Architects

FROM time immemorial mankind has been vaguely conscious of the obligations and responsibilities arising out of the contacts inseparable from social life. Of all ancient written documents, none is more widely known to the Western World than the first book of the Hebrew Scriptures, and in this book the story of the first family life upon the earth develops the question of responsibility for the welfare of others . . . "And the Lord said unto Cain 'Where is Abel, thy brother?' And he said 'I know not. Am I my brother's keeper?'"

All ethical codes and rules of conduct are in some degree attempts to answer Cain's question—a question which increases in its importance to society with the passing of each generation, from the days of the first family group to the infinitely complex relations of men today. It is of increasing importance because the obligation is a cumulative one. Each generation is heir to a richer inheritance from the past and with it is under a greater obligation to the future.

All knowledge which we possess, or which is within our reach, is the gift of the countless minds of past generations, each adding its own contribution and passing it on to the future. This accumulated knowledge is impersonal. It is common property, no matter how great the contribution of an individual or a group in any generation, for these contributions are inspired by and reared upon the foundations slowly built up during the centuries, and represent that part of great lives which remains immortal.

An education should be an effort to grasp the meaning of this vast inheritance, to accept in trust as much of it as we are capable of understanding, to add our own contribution and to deliver it to the future enriched rather than impoverished.

OBLIGATION OF THE PROFESSIONS TO SOCIETY

The professions represent groups of men and women who have chosen special fields of knowledge as the basis of their life-work, and in each of these fields the professional worker finds his subject already developed by the consecutive thought of thousands of predecessors. To take this work of others and sell it for his private gain, adding nothing to it and giving nothing of his special knowledge to the rest of society engaged in other work, is to practise a profession without ethics and without recognition of any obligation to society as a whole, to whom all knowledge belongs.

The so-called "abandoned farms" of New England have been frequently referred to in the past to illustrate the physical effect of appropriating the accumulated natural wealth of the earth without returning anything to the land. Although this wealth reappeared indirectly in stately mansions, facing an avenue which with singular irony was named "Commonwealth," the land had lost its life and could regain its original vitality only after years of effort.

The practice of the professions without the fullest realization of responsibility to society must inevitably react in the same manner, and if the archi-

tectural profession laments the fact that our civilization is not as rich architecturally as the civilizations of Greece and Rome, it is pertinent to inquire how much the students of the architectural history of the past are giving of their knowledge to society as a whole today.

The architectural profession was conscious of this obligation when, in writing its constitution in the middle of the last century, it stated that one of its objects should be "to make the profession of ever-increasing service to society." The declaration of this object remains a challenge to every member of the profession to give of his special knowledge to the community in which he lives and to the world at large.

The bad housing of the very poor—through ignorance of the basic principles of good planning and sanitary requirements, or by reason of the unregulated selfishness of the speculator in land and building operations—is, in the last analysis, chargeable to those who, by their special training and knowledge, know the dangers to a community resulting from such conditions and, while guarding their private clients against these dangers, have failed in their clear duty to use their knowledge for the benefit of the whole community and to keep the public informed in the means of correcting such conditions. Every community has the right to demand that public service from its architects which will influence its physical development, in the same manner as it expects and demands from the medical profession protection from the consequences of ignorance of medical laws.

PECULIAR ARCHITECTURAL RESPONSIBILITY

The enormous economic losses and the great cost of living in congested cities (due largely to the physical an-

archy resulting from lack of planning or zoning) cannot be contemplated by those who have been specially trained in planning without the sense of a direct responsibility to the public for leadership in any movement which will ameliorate these conditions. The architectural profession knows that the planning of a city and the orderly arrangement of its activities is as necessary as the planning and arrangement of the activities of a house, a hotel or a department store, and that the consequences of failure in these matters are multiplied a thousand-fold in the case of our cities. It is the duty of the profession to make it clear to the people of a city that, while they as individuals demand that the various functions of their homes shall be arranged in proper relation to each other, it is of still greater importance to them collectively that the various functions of their collective home, the city, shall be arranged with the same foresight.

Can the architect of today contemplate without a sense of responsibility the utilitarian structures of our present civilization? Can he compare the bridges which span our streets and rivers, in the city and country, with those of older civilizations without feeling that his profession has given too little of its time to inform and influence the rest of society? And, in the matter of design, can he compare the popular acceptance of the design of today with the popular demand of the people of Athens, Rome, Pompeii or Florence without feeling an immense obligation to give more of his knowledge to society in the public interest?

The architecture of the United States up to the beginning of the nineteenth century indicated an understanding public. It was the individual struggle for material gain during the nineteenth century, progressing contemporaneously with the development

of quick and easy communication with the four quarters of the earth, which brought us to its close with no understanding demand from the public to guide the architectural development of the day. Colleges and universities throughout the country were giving their degrees to graduates without having acquainted them with the meaning of the Fine Arts to civilization. Architects, sculptors and painters were serving only a limited few and were conscious of a great gulf between themselves and the public. The work of our few sculptors was rarely seen outside of galleries, and if we compare this work with that patronized by the public, such as the Civil War monuments in every city, town and hamlet, we realize that commercialism had supplanted art in the patronage of the public. This was equally true of architecture and all the arts and crafts. The designers of furniture, decorations and household fixtures and utensils of every kind rarely had any training in the schools of art.

ORGANIZED ATTACKS ON ARTISTIC ILLITERACY

These conditions have been changing for the better in recent years. The World's Fair at Chicago marked the beginning of a public understanding of the larger meaning of architecture, and the group of men who were responsible for the planning of that work also succeeded in arousing a public understanding of the great importance of the original plan of the National Capitol, which was rapidly being lost beyond redemption through public ignorance

of its meaning or even of its existence, as a fundamental upon which the future of the Capitol depended for its dignity and distinction.

The influence of this same group is perpetuated today in the National Fine Arts Commission and in the city planning and art commissions which are now functioning in many states and cities throughout the country.

In more recent years the American Institute of Architects has secured the interest of a number of colleges and schools in the proposal to add a course in the understanding of architecture to their curricula, this course to be quite apart from the technical courses offered to those expecting to practise architecture as a profession. The profession is awake to its responsibility in many lesser ways and believes that the public understanding is already well on its way out of the artistic illiteracy which marked the lowest ebb of the nineteenth century. We are still, however, *Between the Old World and the New* (if I may borrow the title of Guglielmo Ferrero's very interesting book), and, to borrow from its substance, we have broken through the limitations which made a standard of public judgment possible in the ancient world. We are now rioting in our freedom from any limitations and have not yet fully appreciated the necessity of having new limitations. In short, we do not yet know whether New York is ugly or beautiful.

The profession will have grasped its full responsibility only when every member of it recognizes in the public interest his first and greatest obligation.

The Ethical Standards of the Architects and the Procedure for Their Enforcement

By HORACE W. SELLERS

Philadelphia, Pennsylvania, Fellow, American Institute of Architects

IT has been said that in the Decalogue we have all the law that is in the province of legislatures and courts to maintain, and that while such bodies may determine arbitrarily what men shall not or must not do, all the wisdom of the world has not been able to determine wisely what men shall do except that they must render justice and respect the rights and property of others. If this is true of government in general, it should furnish the criterion by which to fix the limitations of canons of ethics which are mandatory upon us in our professional relations.

Apart from such influence upon standards of practice as state registration laws may tend to exert, the architectural profession in general is governed chiefly by the ethics of the individual and by public opinion. The exception to this is found where practitioners have entered into an association to support whatever standards of practice they may adopt in recognition of their duties and obligations to the public and to each other.

The American Institute of Architects as such an association, while national in scope, comprises numerically but a fraction of the practitioners throughout the country, notwithstanding the fact that membership is open to all architects of good repute who are qualified by education and experience to assume the varied responsibilities the profession involves. It may be safely assumed, therefore, that the influence unquestionably exercised by the Institute upon the profession at large and upon public opinion, is not by force of numbers but through recognition of the fact

that the principles of practice and ideals of the association are prompted by unselfish motives and aim to promote the interest of the client as well as to raise the standards of the profession in general. The fact that its ethical canons are mandatory upon but a minority of the profession controverts the charge sometimes made that the attitude of the Institute, especially in regard to architectural competitions, is tantamount to "restraint of trade."

The principles of practice promulgated by the Institute are in accord with the purpose expressed in its constitution: namely, to unite in fellowship the architects of the United States, to combine their efforts so as to promote the aesthetic, scientific and practical efficiency of the profession and to make the profession of ever-increasing service to society.

To support its ideals and principles of professional conduct with the least possible interference with the rights of the individual, the constitution of the Institute provides that its canons of ethics shall be accepted by the members as standards of good practice and since these are embodied in the by-laws to which all candidates *ipso facto* subscribe, a disciplinary procedure is provided whereby these principles shall be enforced. Although, as stated, personal integrity and professional standing is expected of all candidates for membership, it is recognized that under the influence of environment and the larger body of practitioners outside of the Institute, in his community an architect may be led away from strict adherence to the ideals of his profession; and for this reason there is issued

periodically to the members a "Circular of Advice Relative to the Principles of Professional Practice and the Canons of Ethics" and also a "Circular of Advice and Information Respecting Competitions," in which the attitude and ideals of the Institute are expressed. In these circulars distinction is made between general principles of practice which are considered to be the good manners of the profession and which should govern the architect in his several relations, and the Canons of Ethics adopted by the Institute.

The general principles thus stated depend chiefly upon self discipline for their maintenance, while on the other hand the Canons are mandatory obligations of membership, infraction of which is subject to the disciplinary procedure established under the constitution and by-laws.

THE CANONS AND THEIR APPLICATION

Referring to the Canons in numerical order, (*See* page 280) it will be noted that Nos. 1, 2 and 3 rest on the principle that the architect in his capacity as professional adviser to his client in the selection of materials and methods must be absolutely impartial and disinterested; and, accordingly, should not be engaged or in any way personally interested in the building trades or be under personal obligations to manufacturers or others whose products enter into the building operation under his supervision. Certainly he should not specify the use of any material or device in which he has an interest without advising his client.

(No. 2). To guarantee an estimate may tempt the architect to modify the requirements of the work to meet the limit of cost without strict regard for the client's interest or at least influence his judgment as interpreter of the contract drawings and specifications.

The acceptance of a commission (No. 3) or any substantial service from a contractor or any one engaged in the building trades as in the above case may consciously or subconsciously tend to influence the architect's judgment, thus placing him in an unprofessional position in relation to his client's interests.

As stated in the "Circular of Advice and Information Respecting Architectural Competitions," the Institute does not presume to dictate or even offer its advice to architects in general, but, being a professional society charged with maintaining ethical standards among its own members, its duty is to see that they do not take part in competitions that fall below the reasonable standard prescribed by the Institute to establish equitable relations between the owner and the competitors. For a member to take part in a competition that has not received the approval of the Institute (No. 4) is judged unprofessional so far as members of the Institute are concerned.

Where a competition has been established under the approved regulations (No. 5), the owner assumes a moral obligation to those invited or otherwise authorized to participate, to retain one of their number as architect for the work. For an architect not a participant to attempt to secure the commission while the competition is in progress is equivalent to an effort on his part to supplant a fellow practitioner after definite steps have been taken toward his employment.

Absolute and effective anonymity is a necessary condition of a fair and impartial competition (No. 6) and it is understood that the owner and all connected with the project shall refrain from holding any direct communication with the participating architects. For an architect to attempt to influence the owner or others in his favor di-

rectly or indirectly while the competition is in progress would involve disclosing his identity and would be a breach of the agreement under which he is admitted as a participant. An attempt on the part of an unsuccessful competitor to influence the owner's final decision would involve a breach of good faith with architects who participated.

(No. 7). It would impugn the good faith of the adviser in his relations to the competitors and owner should he accept the commission as architect for the work, thus making himself party with the owner to a breach of the contract with the competitors as to the award.

(No. 8). To bear false witness or otherwise maliciously injure the reputation of a fellow practitioner is a breach of the moral code that should govern human all relations.

(No. 9). Where the employment of an architect has been terminated but where his claim for compensation or damages remains unsatisfied, another architect, who in the meantime accepts the same commission, exposes himself to the charge of attempting to supplant a fellow practitioner. To guard against this and as a professional courtesy, the commission should not be undertaken without a conference with the architect previously employed and a satisfactory understanding as to his present status and rights in the matter.

To volunteer the submission of sketches or otherwise to solicit employment where another architect is known to be engaged on a project (No. 10) constitutes an effort to supplant a fellow practitioner, a practice which is derogatory to the dignity of the profession, and which, if encouraged by the owner before reaching a final decision, is equivalent to establishing an unregulated competition.

Beside the documents already mentioned, the constitution of the Institute provides for a schedule of profes-

sional charges complying with good practice and custom, and while this schedule is not made mandatory it indicates a minimum charge for services based upon experience under ordinary conditions.

An architect is at liberty to disregard this schedule if he sets a lower valuation upon his services in making his terms with his client. It is unprofessional, however, for an architect to attempt to secure employment by underbidding a fellow architect. Such a practice not only places his advisory service upon the basis of merchandise bartered in trade but exposes the lower bidder to the charge of endeavoring to supplant a fellow practitioner should the owner have already taken steps toward his employment.

Unlike the publishers of house plans and designers who make a business of furnishing general plans without undertaking to supervise the building operation, the Institute holds that the architect in his professional capacity has a larger duty to his client. As a technical adviser his services consist of a personal study of the client's problem, to which he brings the result of his education and experience, taste and judgment; and furthermore his services properly include the general administration of the business details and supervision of the work and preparation of contract documents. The preliminary studies or sketches and the working drawings necessary to the building operation are simply instruments of service which remain the property of the architect, and are not equivalent to a commodity to be purchased of the lowest bidder.

THE PROCEDURE FOR THE ENFORCEMENT OF ETHICAL STANDARDS

For the enforcement of the mandatory principles embraced in the Canons of Ethics, the constitution and by-laws

provide a disciplinary procedure as follows:

Art. VII, Sec. 3 of the Constitution

All questions of discipline of a Member shall be submitted to the Board of Directors, which shall decide finally and without recourse any questions of action conflicting with the Constitution or By-Laws of the Institute or of the member's Chapter, non-payment of dues to Institute or Chapter, or questions of unprofessional conduct; and acting under this section the Board may suspend a Member, pass a vote of censure upon him, drop his name from the roll of members, or expel him; but no such action shall be taken until the accused shall have had an opportunity to be heard in his own defense.

Art. IV, Sec. 2 of the By-Laws

All questions of discipline of a member shall be determined in accordance with the following procedure:

It shall be competent for and shall be the duty of any Member or Committee of the Institute or of any Chapter to bring to the attention of the Committee on Practice any alleged unprofessional conduct on the part of any Member without being deemed to have entered a formal complaint against such Member. The Committee on Practice shall, when its attention is drawn to any such matter, conduct a preliminary examination into the facts, and if a *prima facie* case shall appear against a Member, it shall so report to the Judiciary Committee. The Judiciary Committee shall hear and adjudge every case so reported to it and shall give the Member an opportunity to be heard in his own defense. Its findings shall be conclusive in regard to all questions of fact involved in the evidence submitted.

The Judiciary Committee shall report its findings to the Board of Directors. If the findings are adverse to a Member, the Board of Directors shall take such action thereon as it shall see fit according to the Constitution. A

Member may appeal in writing to the Board of Directors on questions of professional or ethical policy.

Any Member may appeal to the Committee on Practice from any action of a Chapter Executive Committee regarding alleged unprofessional conduct. In such case the procedure shall be as provided above in this section, but no decision of the Committee on Practice or the Judiciary Committee reversing the previous action of the Chapter Executive Committee shall be effective unless ratified by the Board of Directors. The action of the Board of Directors shall supersede the action of the Chapter Executive Committee.

If in any case pending before either the Committee on Practice or the Judiciary Committee, any oral testimony has actually been given, such committee shall have the power to continue and conclude its work on that particular case, notwithstanding the expiration of the term of office of any or all of its Members.

The Board of Directors shall, from time to time, establish rules of procedure for the guidance of the Committee on Practice and the Judiciary Committee.

RULES FOR THE DISCIPLINARY COMMITTEES

To perform its disciplinary functions the Committee on Practice and the Judiciary Committee above referred to are governed by rules which set forth the procedure following a charge of unprofessional conduct against a member. In some cases a preliminary investigation is made by the local Chapter when one of its members is involved and if the evidence warrants, the charge may be dismissed by the local body, or referred to the Institute Committee on Practice, the case being then taken up in pursuance of the following rules:

RULE 1. Procedure of Committee on Practice.—Whenever there has been

brought to the attention of the Committee on Practice any alleged unprofessional conduct on the part of any member, the Committee on Practice, after due investigation, if of the opinion that a *prima facie* case has been made out, shall send the following information by registered mail to the member involved, to the complaining member if there is one of record, and to each member of the Judiciary Committee:

A copy of the findings of the Committee on Practice, embracing a reference to the Code, Canon, By-Law, or other rule or principle of the Institute claimed to be violated;

A specification in concise form of the particular offense, giving in detail its time, place, and occasion, as far as practicable; also a complete file of evidence of the case as transmitted to the Judiciary Committee;

And a printed copy of these rules.

RULE 2. Procedure of Judiciary Committee.—The Chairman of the Judiciary Committee, on receipt of copies of the findings and all evidence of record in regard to the case from the Committee on Practice, will communicate by registered mail with the member to whom notice has been sent as provided for in Rule 1, with the request that he state whether he acknowledges the facts to be in substantial accordance with the findings of the Committee on Practice, and whether he is willing to waive a formal hearing before the Judiciary Committee. If such hearing is waived he shall be permitted to present a written statement in explanation of his alleged offense, which will be duly considered by the Judiciary Committee in rendering its decision and in submitting its report to the Board of Directors; but in case he denies the findings of the Committee on Practice, or does not waive a formal hearing (and delay in replying beyond fifteen days from the date of the notice of the Chairman of the Judiciary Committee above provided for will be construed as a waiver), or in case the offense with which the member is charged is of such

gravity that the Judiciary Committee is of the opinion that a formal hearing is necessary, then a formal hearing will be ordered by the Chairman of the Judiciary Committee who will advise him by registered mail of the place, date, and hour at which the Judiciary Committee will hear the matter, notifying him that he will be at liberty to appear at such hearing and to offer at that time any evidence on his own behalf in denial or palliation of the particular offense on which the findings of the Committee on Practice are based. The complaining member, if there be one of record, shall also be notified, by registered mail, of the place, date, and hour of the hearing, and he shall be given the opportunity of testifying at said hearing.

The Committee on Practice, through its Chairman or otherwise, may present for the consideration of the Judiciary Committee at the said hearing such additional evidence as may have come into its possession since its findings were transmitted to the Judiciary Committee, and shall have the right to summon and to question witnesses with a view of bringing out all sides of the case at issue. The Judiciary Committee may also summon and question witnesses if the circumstances so warrant in its judgment.

RULE 3. Absence of Interested Parties.—The absence of the member against whom complaint has been made, or the absence of witnesses duly summoned from the hearing before the Judiciary Committee (held as above provided in Rule 2), shall not prevent the Committee from proceeding with the case and making due disposition of it in accordance with the evidence presented.

RULE 4. Refusal to Testify.—The member against whom the Committee on Practice has found a *prima facie* case shall, on his appearance before the Judiciary Committee, present himself for examination and shall fully answer all material questions that may be propounded to him, and the refusal to so

answer such questions, or the deliberate evasion thereof in the judgment of the Committee, shall be construed as a violation of the objects of the Charter of the Institute as well as of its Constitution, and shall be reported to the Board of Directors by the Judiciary Committee who may after proper proceedings discipline or expel such member.

RULE 5. *Submission of Evidence.*—The Judiciary Committee shall be the sole and absolute judge of the admissibility of all evidence brought before it as well as of its value. While the best evidence is in general to be procured, the Committee shall be entirely free to accept any other logically relevant evidence that may be offered to it, and if the same is not the best evidence obtainable, to give it such rating for accuracy and reliability as they see fit. If members of the Institute have in their possession any original letters or papers or copies thereof that are involved in any complaint or findings, they shall produce said letters or papers or copies on request or shall send copies thereof with a certificate annexed, signed by themselves, stating that the original is in their possession and that they have personally compared the copy with it and that the copy submitted is a true, complete, and correct copy thereof.

RULE 6. *Hearings by the Board.*—If the Judiciary Committee, after hearing a case against a member, makes any findings involving such member, that member, and the complaining member, if there is one of record, shall be notified thereof by registered letters. Such notice should contain the findings of the Judiciary Committee, the judgment it recommends, and be in the form and substance in which the findings are to be presented to the Board of Directors.

When the Judiciary Committee makes a finding it shall contain the findings of the Committee on Practice, a statement of the case, a recital of the facts of the case, the discussion of the Judiciary Committee, and its decision.

Copies of the findings shall also be mailed to each member of the Board of Directors; and the Board, through the Secretary of the Institute, shall set a time and place at which the findings of the Judiciary Committee shall be presented, and at which the accused shall have opportunity to be heard. A notice shall be sent to the accused and to the complaining member, if there is one of record, by registered mail thirty days in advance of the time of the hearing, notifying each of them of the time and place of hearing.

The Chairman of the Judiciary Committee may prosecute the case before the Board with the assistance of the other members of the Judiciary Committee if they so desire, but neither the Chairman of the Judiciary Committee nor any member of the Judiciary Committee shall participate in the deliberations of the Board of Directors over the matter nor vote thereon.

At the hearing the Judiciary Committee will present its findings to the Board, at which time the accused shall be given opportunity to be heard in his own defense, and he may introduce written evidence or call witnesses in refutation of the charge against him, but in all cases the Board shall be the judge of the relevancy or the admissibility of such evidence. Such testimony must be logically relevant to the findings of the Judiciary Committee, unless in the judgment of the Board of Directors the accused should be permitted to raise a question of professional or ethical policy, in which case evidence of a more general character may be introduced. If the accused does not appear personally, he may submit his defense in a written communication addressed to the Board of Directors.

RULE 7. *Publication of Findings.*—The action taken by the Board of Directors whether for or against the accused shall be reported to each member of the Institute in full or in brief as shall be determined by the Board of Directors, who in their discretion may also

direct the sending of the findings of the Judiciary Committee to each member.

RULE 8. *Publication of Exoneration.*
—Should the Committee on Practice fail to find a *prima facie* case, it shall so advise the Board of Directors, for record, and the accused and accuser. Should the Judiciary Committee exonerate any accused member, the Secretary of the Board shall so advise the accused and accuser, and if requested by the accused shall forward a copy of

its findings for publication in *THE JOURNAL*, in addition to the sending of such findings to each member of the Institute.

RULE 9. *Service of Secretary's Office.*
—The Committee on Practice and the Judiciary Committee may call upon the Secretary of the Institute for the assistance of his clerical force in the work of their committees, and it shall be the duty of the Secretary to furnish such assistance.

The Architectural Student and His Relation to Professional Practice

By EMIL LORCH

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YOUNG men enter the architectural profession along two principal lines. Many attend an architectural school and then enter an architect's office for practical experience before engaging in independent practice; others enter such an office directly after attending high school or after pursuing a liberal arts or a scientific course at college.

The recruit's understanding of professional and ethical relations depends largely on the manner in which he has received his general and professional education, upon the kind of approach he makes to his profession and to his duties as a citizen. This approach has varied with conditions, the status of the profession before the public and the profession's realization of its duty.

As a people projects its conception of behavior in the form of law, so a profession when it becomes conscious of its obligations formulates certain regulations for its followers. A standard is set up for membership and good standing in the professional organization and this organization, with the

consent of those governed, exercises disciplinary powers in the way of censure, suspension, or expulsion against offenders. Such an organization does a real educational work for the public and the entire profession concerned, gradually creating an understanding of the aims of the profession and giving it a more definite place in the general economic and social fabric.

After attaining a measure of public recognition, it becomes possible to proceed further and establish a basis of admission to the profession by requiring candidates to qualify educationally under a state law, thus protecting the public to some extent against incompetence, gaining the recognition of the state for the profession, and making possible disbarment from practice of those flagrant offenders against public interest who could not be reached through any code of a purely selective organization.

The organization of a profession with definite and published ideals of performance, seconded by a legal minimum of admission to practice for all, irre-

spective of membership in professional societies, constitutes evidence which should make clear what the profession stands for in point of preparation and professional relations, ethical and otherwise.

THE APPRENTICESHIP SYSTEM

Before the organization of the American Institute of Architects, of the architectural schools, of architectural publications, and of registration laws, the architectural recruit received his technical and social training as the apprentice of an architect. In England he was "articled" in a professional rather than a commercial office and paid for his instruction and other privileges. The architect was morally bound to further his education, while there was a social side to the relation which tied together student and practitioner. The problems of the office were shared with the apprentice in proportion to his advancement and the personal association of master and pupil nurtured a professional sense, with a sympathy for as well as understanding of professional obligations. Here was a bond which made for fine coöperation and respect for the interests of the public and other practitioners, and created a solidarity which is still powerful in England.

America inherited and modified the apprenticeship system, long retaining its valuable contacts and handing on of knowledge. The beginner entered the office, however, more or less as a general "cub" assistant, doing everything until he finally became a full-fledged draftsman, often later becoming a member of the firm. Here, too, the system engendered loyalty and mutual respect, and in numberless cases the architect gave freely of himself to the rising generation to better the profession. Here again the personality of the practitioner and his older assistants counted tremendously in

molding the beginners. These beginners were generally very young and had had little general schooling, gaining their insight of the larger relations, their world outlook, while learning how to draw, and studying at night such books as could be had. It was a highly individual process, which often left too much to the initiative of a student of very modest attainments, slight background and limited opportunities for improvement outside the office. During this period there was no approximate agreement as to the larger relations of the architect or his education; little vision as to the possibilities of architecture, and hence the beginner's introduction to the professional field varied greatly with the office where he served his apprenticeship.

ORGANIZATION OF THE ARCHITECTURAL SCHOOLS

The organization of architectural schools began in this country soon after the formation of the American Institute of Architects and their growth has rapidly displanted the apprentice system. There was a transitional period during which the value of an architectural school training was questioned by those who had come up through the other system but for some years now it has been assumed that proper preparation for the profession consists of such schooling along with the practical experience, like the physician's internship, which must precede independent practice.

While many young men still begin in an architect's office, practically all now look forward to attending an architectural school. This change is entirely owing to higher standards of practice and the greater demands made on the profession, the rapid progress made by graduates, their greater breadth of view, and the preference of most architects for trained assistants.

There has been a significant parallelism between the evolution of the American Institute of Architects, the colleges, universities, architectural schools and journals. It is safe to say that the schools have markedly influenced the architectural profession and that the profession's better conception of its obligations reflects much that the colleges in general stand for. Schooled men have for many years been taking over control of the Institute and, thus placed, have shaped many of its activities. The agencies enumerated above reflect, in turn, the general development of the country, its organization of industry and business, its large projects and need for hurried production, out of which has sprung the large architectural office organization for practice.

About one-half of all architectural draftsmen are employed in such organizations and in them the individual is but a cog, rarely coming into personal contact with a member of the firm. In such offices, specialization obtains as a natural outgrowth in the fields of design, construction, mechanical and other equipment, specifications, superintendence, rendering and other parts of the work; some portions of this work may even be done outside the office by other technical organizations, while the actual building operation may not be observed at all by many of the assistants who are busy throughout the day at the drawing board and thus do not see the expression in real materials of what they have drawn. They have little contact with the actual work or with the architect. As a consequence of this specialization and mechanicalization, some young men will not work in a larger office if they can possibly get into a smaller one where they can better gain a conception of the entire range of activities and have a share in more of them.

To overcome this difficulty, a splendid effort was recently made in one office to discuss the current work once a week with the entire drafting force in order to give them some insight into the conditions under which the office was serving and to bring about better mutual understanding and team play.

Clients have been known to point out that the assistants in some offices had progressed little in certain directions over a period of years, because they had been so closely tied down and had been given no opportunity to go out on the building, visit modelling and other craft-shops, and thus gain a greater sense of the reality of what they drew. Today in large offices the old bond between master and pupil is uncommon; the assistant does certain assigned tasks, works as a member of a squad and gains little attachment for his employer and no great enthusiasm for his work; close interdependence and personal interest and contact are too often wanting and the recruit gets little idea of the profession as a whole. Hence the increased necessity of discussing the problems and ideals of the profession in draftsman and student clubs and in the architectural schools.

After the formation of the American Institute of Architects in 1857 there gradually came about a crystallization of thought on matters affecting the profession and its larger objectives and as a consequence there has for years been growing up a series of documents on professional practice known as the "Ethical Documents of the American Institute of Architects." These are unique and authoritative as well as comprehensive and succinct statements, which have had considerable influence outside of Institute circles. They are available to all practitioners and students. Successive committees of the Institute have worked devotedly to produce and clarify these documents.

In them are defined the responsibilities of the architect to those he serves and to the contractor, as well as to other architects.

EDUCATION IN PROFESSIONAL RELATIONS

The Institute was quick to see that it must concern itself not only with practice but also with education. The Committee on Education has with increasing understanding coöperated with the schools. Special sessions of the Institute conventions have been devoted to education, exhibitions of students' and architects' work have been held, the leading schools recognized, and medals awarded to promising students.

The aims and activities of the Institute and the subjects included in the Institute documents are now discussed in one form or other in practically every architectural school, but with varying emphasis. In some, the curriculum is so overcrowded that little time can be allowed for such discussion. Where an entire course in professional relations is permissible, the titles "Professional Practice," "Professional Relations," "Specifications and Practice," "Business Law," "Business Administration," "Contracts," and the like are frequently used and "Ethics" is formally discussed as part of the course.

This is one of the fields in which the visiting lecturer can do most effective work and such lecturers alone give the instruction in one school; in others, visiting lecturers share the instruction with regular instructors. An examination is given at the close of such a course. In two schools, but one and four lectures respectively are given to the class about to graduate. Again, where no special course is given, the professor of architecture discusses professional relationship at meetings of the

student societies or as part of other class instruction. In two schools, the freshmen hear about it and the subject is constantly kept before the students. Where the subject is not actually taught, it is proposed to give formal instruction very soon.

One of the school heads to whom the writer wrote to learn what was being done in the institution of which he has charge, after referring to bad conditions in his particular state, said: "It is a big problem, but we are making a beginning and the next generation will feel the effect."

The essence of the Institute documents is given in the "Circular of Advice" and the "Canons of Ethics," both of which are printed in full in this volume.¹ The fundamental thought of these is the maintenance of truly professional relations by the architect to the owner and the contractor; while employed and paid by the owner and remaining loyal to him, the architect, as interpreter of the conditions of the contract and judge of its performance, must retain impartiality in order to be just to the contractor. Fairness to other architects, advertising, non-participation in improper competitions, duties to students and draftsmen and to the public and building authorities, professional qualifications and the architect's status are briefly summarized in the above documents and in the syllabi of some of the schools, as is also the gist of the "Circular of Advice on Architectural Competitions," "Disciplinary Rules" and the "Schedule of Charges," the business forms, general conditions for specifications, and the form of contract. Most of these are discussed in some measure in the schools, but there is considerable room for more systematic and thorough-going attention to them.

In one school critical and other

¹ See page 277.

articles bearing on the profession and architectural education are read and discussed by the senior class to give students another angle of current thought. In two schools summer office work is required and two summer vacations must be spent in this way before the diploma is granted. Students thus get some insight into office routine, profit more by class instruction and, upon graduation, more easily get a start as draftsmen.

At least one division of the architectural curriculum is of particular worth in combining technical knowledge with more general values. In architectural history there is not only the great chain of human events reflected in monuments but high ideals of performance, distinguished personalities and extraordinary examples of achievement. Devotion, self-sacrifice and genius are all found here. Like architectural design, this is one of the truly inspirational subjects of architectural teaching.

To students the wide field of effort of the Institute also needs to be interpreted, as it does to some who never attend a convention and thus fail to grasp the reality and vitality of the organization. Its purpose is best demonstrated in the manifold activities reflected at the annual convention, at which time all the many standing and special committees report. It would be a splendid experience for students to sit through such sessions and thus learn what a large number of busy men in all parts of the country are unselfishly contributing through committee activities to the evolution of the Institute ideal and to giving it practical effect.

ADJUSTMENT TO THE PROFESSION

It has been said above that in some schools little attention is given to "professional practice" because the curriculum is overcrowded. In the so-

called four-year courses in architecture there is little time available for cultural and scientific subjects in addition to essential preparatory and technical work. Some hold, moreover, that given a reasonably broad collegiate and technical training, the graduate will, while getting practical experience prior to independent practice, readily come to grasp the principles involved in such practice with the help of the very concrete, definitely expressed documents published by the Institute.

The entire professional student career is obviously one of adjustment to the profession. Its obligations are constantly kept before him; the bearing of each principle and technical topic on actual circumstances is carefully discussed. If the school cannot anticipate the actual experience of the individual it can and must help train and form him, strengthen his convictions for the time of struggle and doubt, and place him in the larger currents of thought. Although the college period has among its drawbacks, in the minds of ardent realists, the keeping of the student away from actual business problems and life, it has, derived from this, the very advantage that it may help form character which will help build a better world. Idealism certainly finds one of its strongholds in our institutions of learning. The fundamental ideal of the college is, after all, to increase resource and power; to develop men, to train them for good citizenship rather than narrow vocationalism or professionalism. They must be able to do their elected work, but they must also be prepared to give whole-hearted cooperation to the furtherance of civic, state and national well-being.

To the college period the student comes more definitely influenced by standards of private than of public life. His reactions to questions of

honesty are already largely formed. During this period he changes from boyhood to manhood and receives a better understanding of life and the relation of the individual to it. If he can give time to a fair amount of liberal or cultural studies, he will more readily understand human relations and learn to distinguish ethical values. If, however, he immediately enters the customary limited professional course of but four years in architecture based on high school training, thus allowing very little time for cultural studies, the likelihood of his having a good general conception of the normative field is greatly lessened, for his chief preoccupation will be to make a practical success as soon as possible after graduation.

The group trained as first suggested through its analysis of form, character and events, study of literature, sociology, economics, political science, law and philosophy in its various forms including ethics, needs little in the field of professional ethics. These men come from the university with a fairly good understanding of human relations and may be trusted in their relations to society or a specific group, professional or otherwise. For the second group a discussion of the ideals of the profession is much more needed. In any case, the institution can only send out its graduates with the hope that in an age in which so much has been commercialized they will distinguish values and keep up to the highest possible mark and that they will help form an opinion which will raise the general standard of performance.

After graduation those who have the means will in increasing numbers go abroad for study and travel before entering an architect's office for a period of apprenticeship and experience before becoming practitioners.

CONDITIONS OF ENTRANCE TO PRACTICE

Independent practice in former years depended merely on securing some kind of commission or client but in at least twenty-two of our states men must now qualify for practice under registration laws. The young architect thus receives formal recognition by the state with a certain measure of confidence on the part of the public, as in the case of the doctor and the lawyer. In some states candidates for the examination must have two or three years' experience under an architect in addition to a diploma. The Institute has been very conservative on this question and not until three years ago did it give its support to the principle involved. In the minds of many, such laws provide the best means for protecting the public against those utterly lacking in fitness and training for even the lesser responsibilities and smaller problems of the architect. Such laws have very great possibilities for good, have been in effect long enough to demonstrate real value, and give students an objective similar to that of other recognized professions.

The architectural schools have long realized the necessity for higher standards of admission and graduation. At the universities they are directly in touch with the higher requirements effective for law and medicine and have recently won the support of the Institute for longer courses which are to be given effect in the near future. To encourage sound effort, the Institute has for some years awarded a medal annually to that graduating student of each of the "recognized" schools who has stood highest in his class throughout the duration of the course. A number of architects have been able to provide resident scholarships for deserving students and foreign travelling

scholarships to create an interest in higher artistic achievement through a first-hand acquaintance with master works. Much more can and should be done in this direction, for every architectural student should know at first hand some of the great works of the artistic field abroad, not only in architecture but in painting, sculpture, gardening and city planning.

EXTRA-CLASSROOM FORCES IN ETHICAL TRAINING

The sense of individual responsibility is developed by allowing students opportunities for activities outside of class work; thus they begin as class officers, serve on committees or student publications, engage in athletics, debates, entertainments, and the like. Such activities develop initiative and a knowledge of men and affairs which are of great value and mean much to the college student. Most of his life is spent outside the classroom, away from the faculty, and thus his associates, amusements, club or fraternity connections have much to do with shaping his ideals. In most cases he retains the religious affiliations made at home and where this is so, a potent constructive force exists for good, probably stronger in so-called denominational institutions than in the others. Practically every architectural school has its student architectural society with its list of speakers,

architectural and otherwise, while there are two national architectural fraternities, the members of which have club houses managed by students at their respective institutions, as do certain other professional student groups. There are also two national honor fraternities for architectural students, also under student control and open only to a certain percentage of the students on the basis of high scholarship, a qualification which demonstrates the effect of student initiative in the recognition of good personality and work.

In institutions where the honor system prevails, where the students themselves undertake supervision of examinations, we have another positive force for good. It will be gratifying to some to know that students have been known to vote down the honor system for examinations, since the men felt that they were on their honor continuously! In some colleges, under such a system, students offending against the code are tried by a student honor committee and if found guilty are dismissed from college by that committee; in other institutions, the findings of the student committee are reported to the faculty concerned, which acts on the recommendation of the honor committee. Nothing can be finer than the willingness of students to accept such a responsibility and nothing will better prepare them for some of the burdens of professional life.

Codes of Ethics for the Teaching Profession

By GEORGE GAILEY CHAMBERS, PH.D.

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THE professions exist for the purpose of rendering service to humanity. The service to be rendered by the teaching profession is *to assist in preparing human beings in their younger periods of life so that they may be equipped mentally, morally and physically to live in the most serviceable manner possible during the whole of life.* The rendering of this type of service is not to be done exclusively by the teaching profession. The home is, or should be, the most efficient co-partner in rendering this service. The church should be a close second to the school and the home. Various social organizations and activities also assist in this service.

The teaching profession consists of a group of men and women trained and organized for the rendering of that special service to humanity, and no man or woman is worthy of membership in this profession unless he is thoroughly imbued with a determination to render the service for which the profession exists, even if, at times, it means personal sacrifice. From the ethical point of view, the fundamental qualities of the worthiness of men or women to be in the teaching profession are an unadulterated feeling of loyalty to the purpose of the profession and a thorough determination to render the service required. This test should apply to all alike, even the very beginner in the service who may anticipate that her tenure may be short. The profession should strongly object to the entrance of anyone who is deliberately using it merely as a stepping-stone to some other profession or occupation, unless that occupation be motherhood. Moreover, when the obli-

gations of motherhood have been satisfied, the mother who was previously trained as a teacher, should be welcomed into active service in the profession. She has probably been much improved in her qualifications as a teacher by her experience as a mother. Her services are needed in the profession. Why should she wait until she becomes a widow before returning to active service?

ENTRANCE STANDARDS

The mode of entrance into the teaching profession is not nearly as uniform as the mode of entrance at present into the medical profession, which in that regard has the most nearly uniform standards of all the professions. On this point, however, the teaching profession will compare very favorably with the other professions with the possible exception of law. The vast majority of the members of the teaching profession, made up of those in the several public school systems, enter the profession by meeting definite requirements laid down by the several states. Unfortunately, it is still true that the minimum requirement for entrance is much too low, and one of the first duties of the profession is to take steps to increase the entrance standards. It is encouraging to note that the last few years have seen much improvement in this regard; notwithstanding the great increase in the demand for teachers.

One of the most hopeful signs in the profession is the increased emphasis upon professional training. The tendency, as far as public school service is concerned, is to make entrance into

the profession conditional upon the successful completion of a course of professional training in some professional school. There is even some indication that professional training is being considered as of value when selections are being made for new instructors in some of our colleges and universities.

The lack of uniformity in the modes of entering the profession have made it difficult to instill into the prospective teacher ideals of professional ethics. In fact in hundreds of cases in the past no sense of professional obligation was existent.

ORGANIZATIONS

When it comes to organizations made up of members of the profession we find them very numerous. We have organizations by states, by counties and by local districts; we have organizations on the basis of the subjects taught; we have organizations on the basis of the kind of school or college in which the members teach; for example, organizations of teachers in private preparatory schools, or even of teachers in schools of a given religious denomination. We have organizations made up of teachers in urban universities, for instance. Every few months we learn of a new organization whose members consist of teachers.

That organization of the teaching profession which without doubt should be placed first in our country is the National Educational Association, and it seems to me that that is the organization which will inevitably be the most influential in bringing the profession up to the ideal standards of a profession; but doubtless many other associations will play an important part. In the college and university portion of the profession, the American Association of University Professors seems to bid fair to do much toward bringing its

members up to ideal professional standards.

EXISTING CODES

At least twelve codes of ethics for teachers have been formulated. There may be others which have not come to my notice. Some of these have been prepared by local clubs; for example, the code prepared by the Barnard Club in Providence, Rhode Island. Others have been prepared by teacher's associations which cover certain definite geographical districts, not following state or local municipal lines; for example, the code prepared by the Monongahela Round Table in the northern part of West Virginia. Some have been prepared by students in graduate university courses in education, such as the one prepared at the University of Utah. Several have been prepared by committees of state associations for teachers and afterwards approved by those associations. The state associations in the following states have approved codes: California, Michigan, Mississippi, New Jersey, Pennsylvania, New York and Oregon. Of these state codes, that prepared by Michigan is the most recent. The one by Pennsylvania is next. The Michigan Code is avowedly in a very tentative form.

The Pennsylvania Code was approved by the State Education Association in December, 1920. Over three years was spent by the committee in preparing it. In the process of preparation, the committee studied all of the other available codes for the profession, as well as the codes of other professions, including medicine, law, architecture and engineering. The Pennsylvania Code is given in full in the appendix of this volume.¹ The code of ethics

¹ See "A Code of Ethics for the Teaching Profession Adopted by the Pennsylvania State Education Association," page 281.

adopted by the State Association of Pennsylvania is printed as typical of those adopted by other states. A code of ethics was adopted by the New Jersey State Teachers' Association in December, 1914. Other codes have been adopted as indicated on page 122, but the Pennsylvania code was chosen for printing in full because it is both recent in adoption and fairly complete in details. The Bureau of Education, Washington, D. C., has published a list of codes for teachers, with references to educational periodicals.

There naturally arises the question as to the relation of the particular code of ethics for a profession to ethical principles in general. That question is probably best answered by saying that a code of ethics for a profession is merely an application of the general principles of ethics to the special obligations, rights and privileges of the profession, having always in mind the special service for which the profession exists. In view of the special relationship between the teaching profession and the youth of our country, it is of the highest importance *that each member of the profession shall have achieved in himself a character worthy of daily presentation to those being taught.*

FIRST PRINCIPLE OF THE TEACHER'S CODE

The highest obligation of every member of the profession is due to those who are being taught, either by him directly or by the school system in which he holds a place. This is the fundamental ethical principle of the profession. Putting it negatively, this principle states that the teacher's highest obligation is not to the board of school directors, or to the superintendent of the school, or to the principal, or to himself, or to the parents of his pupils. Every disputed or doubtful point in connection with any other

ethical principle should be settled by determining which mode of settlement best meets the obligation asserted in this first principle. This principle should be considered equally applicable to teachers in the colleges and universities.

COMPENSATION

In every profession some of the most troublesome ethical problems arise in connection with the subject of compensation and the related subject of appointments, promotions and contracts. It is unquestionably the urgent duty of the profession to demand adequate compensation, since only when there is adequate compensation can the profession meet its obligation to those being taught. Individuals may, it is true, render the highest type of service with inadequate compensation, but in order that the profession as a whole may render a high type of service, men and women of high ability must be attracted to it. Moreover, when in the profession, they must be financially able to do the various things necessary for efficient service. For example, they must be able to purchase books and periodicals, to travel and, especially, to attend meetings of the various societies in the profession. Furthermore, they must be able to live in their respective communities in such a way as to command respect and recognition by the community. The Michigan Code says, "It is unprofessional for a teacher to sign a yearly contract to teach for a wage that is not sufficient to cover living expenses for twelve months."

PROMOTIONS AND CONTRACTS

Many a teacher, principal or superintendent is tempted to use an unethical procedure when the question of an appointment or promotion is involved, because then his personal

comfort and inconvenience are most prominently before him. Personal comfort is a secondary matter in the mind of any real altruist. This remark applies with equal if not greater force to the superintendent who is tempted to stand in the way of a desired advancement so as to avoid the inconveniences incident to the replacement of teachers. It is a short-sighted policy to argue that the best interests of the children will be served by preserving the *status quo*.

Another point of temptation arises when the acceptance of an opportunity for advancement involves the breaking of a contract. No teacher, or anyone else, should ever violate a contract. Unless the consent of the employing body is obtained, thereby releasing the obligation, the contract should be fulfilled. The principle just stated should suggest to the wise teacher that care should be exercised as to the terms in a contract before the contract is signed. In particular, he should see that the contract contains a reasonable provision for its termination upon giving proper notice.

CRITICISM OF ASSOCIATES

Under the head of criticisms of associates, the teaching profession might well take note of the corresponding principle in the code of the medical profession. In the medical code we find the following: "When a physician does succeed another physician in charge of a case, he should not make comment on, or insinuation regarding, the practice of the one who preceded him." In the medical profession, the situation where one physician succeeds another in charge of a case is the unusual situation, whereas, in the teaching profession, it is the regular procedure. The only way in which a teacher with a class above the first grade can obtain

new pupils is by receiving the pupils previously taught by someone else. The practice of condemning the previous teachers of one's pupils is very common. It is probable that most of the deficiencies in the pupils are due to the great individual innate differences found in any considerable group of human beings, and that the differences which a teacher finds in a new group of students are almost certainly not due to any failure on the part of the preceding teacher.

Teachers who are aroused by the presence of deficient pupils in their classes seem to forget that much more skill is necessary to teach such pupils successfully than to teach the ordinary pupils. How much better it would be to recognize the presence of deficient pupils as a challenge to one's teaching ability. Might not this attitude save many a freshman in college? This does not imply that there should be in the same classroom for instruction purposes, a group varying widely in ability to take up the work in hand. Whenever pupils are classified on the basis of ability, the real teacher will feel it a compliment to be asked to take the weaker section. The demand upon teaching ability will be greater.

PRINCIPLES PECULIAR TO THE PENNSYLVANIA CODE

The Pennsylvania Code contains two sets of principles covering problems apparently untouched by the other codes which the writer has seen. I refer to the paragraph concerning democracy in the development of school plans, and the paragraph referring to the ethical factors entering into the supervision of classroom work.

The question as to the extent of the participation of teachers in the development and execution of school plans and policies is a live one. In this connection, it should be remem-

bered that neither the teacher nor the superintendent has any professional rights except those which grow out of the obligations of the profession to those being taught. The positive ethical principle here is that the superintendent, principals and teachers should collaborate and coöperate so as to make the schools as efficient for the good of the child as possible. This carries with it the right of teachers, even by collective action, to demand the privilege of such collaboration and coöperation, if it is not voluntarily granted. Such a democratic process of determining school policies will often lead to conclusions which are not considered wise by some members of the school system. In such cases, however, the obligation rests strongly upon all in the school system to support the school's policies so long as they continue to hold their positions. That is, when a policy is finally determined it should be loyally supported by all. This principle of democratic coöperation and collaboration should also be applied to instruction in our colleges and universities.

SUPERVISORY OFFICERS AND TEACHERS

In considering the relations between supervisory officers and teachers, it must be kept in mind that the first function of the supervisory officer, whether the superintendent or someone under him, is to help the teachers to become more successful teachers. The determination of the best methods of supervision is very important to every person in the school system. Is this not a problem upon which the teachers have a right to collaborate, remembering that the purpose of supervision is helpfulness? Cannot a plan be devised and operated whereby kindly constructive criticisms of the superintendent, supervisors and princi-

pals might be formulated by the supervised group? There need not be anything in such a procedure to hurt either the dignity or usefulness of the superintendent, supervisor or principal. The superintendent is not an autocrat, but merely one member of the profession who for the time being is given particular duties and responsibilities. Why should not the collective wisdom of the people in the school system be used to help him meet those special duties and responsibilities?

RELATION TO PUBLISHERS AND SUPPLY HOUSES

There is one other type of situation which leads to difficult ethical problems; namely, the relation of superintendents, principals and teachers to publishers and supply houses. The question arises in connection with superintendents or other members of the profession who have textbooks on the market or who have teaching devices of one kind or another for sale through supply houses. The statement of the Pennsylvania Code on this subject is as follows:

No member of the profession should act as an agent, or receive a commission or royalty or anything else of value, for any books or supplies in the selection of which he exercises official decision.

This is a rather moderate statement and may not go far enough. Some students of this question would impose much narrower restraints. In at least one state every member of any of the school systems of the whole state is forbidden by law to accept royalties from textbooks used anywhere in that state. Of course, it is very important that there should be a sufficient incentive to induce the best schoolmen to write the best possible textbooks and evidently such drastic legislation would greatly re-

duce one important incentive. However, the writer of a textbook in any particular field is probably not an unbiased judge in passing upon the relative merits of the textbooks in that field, and it seems that merely the waiving of the royalty, as required in the Pennsylvania Code, does not go quite far enough. Would it not be wise for him to refer the decision to someone who would undoubtedly be recognized as an unbiased judge, even though he may himself feel entirely unbiased in the matter and may have waived all rights to royalty? The full confidence of others in his integrity is worth much.

COMMISSION ON PROFESSIONAL ETHICS

The Pennsylvania Code as far as the writer is aware, is the only one which carries with it the establishment of a permanent commission on professional ethics. Such a commission is now in existence in the state of Pennsylvania and is functioning. The duty of this commission is to study the various problems of professional ethics arising from time to time, to give the inquiring members of the profession its interpretation of the meaning of the various principles in the code, to arrange for investigation rendered advisable in connection with ethical problems, and to recommend amendments and additions to the code. If similar commissions could be estab-

lished in other states, and if there could be established a national commission to which appeals from the state commissions might be made, a national code of ethics, with an accompanying body of decisions and interpretations would gradually be established. The National Educational Association would seem to be the proper organization to take the first steps in this direction. Probably no one thing would go farther toward the securing of proper recognition of the teaching profession than the approval by the National Educational Association of a national code of ethics and the establishment under the auspices of that association of a national commission on professional ethics.

Of course, the mere formulation of codes of ethics will not accomplish much unless there is in some way implanted in every new teacher a sense of individual responsibility for maintaining good professional standards. This is the task of state departments of education, of superintendents of schools, and especially of the faculties of teacher's training schools. There is need of a short course, possibly two or three weeks in length, in every teachers' training school, bringing individually to each student the ethical obligations about to be assumed when the student enters the teaching profession, and warning against the special temptations to unethical conduct that so frequently present themselves.

The Principles of Academic Freedom and Tenure of the American Association of University Professors

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THE American Association of University Professors was organized in January, 1915. The motive for forming the organization was the feeling that there was a distinct need for an association of college and university teachers through which their professional interests might find expression. Most college and university teachers were members of the learned societies in their respective fields, but it was felt that these bodies did not adequately meet the needs. In the first place, in these associations, time and energy was devoted solely to the discussion of scientific topics and the extension of scientific knowledge along specialized lines. In the second place, the large number of these scientific bodies prevented any group consideration of the professional interests of college and university teachers. There was no body that could express these interests comparable with the American Bar Association for the lawyers or the American Medical Society for the physicians of the country. The American Association of University Professors was formed to fill this need, and to "enhance the security and dignify the scholar's calling throughout our country."

Membership was limited at first to teachers or research students who had had ten years' experience in teaching or investigation in connection with some college or university of recognized standing. The condition for membership was changed at the annual meeting in 1920 so that three years' experience is now required. The evidence that the Association is filling a need may be seen in the continued growth in mem-

bership, which now numbers 4,046, representing 183 institutions.

ORGANIZATION OF COMMITTEES

During its first year of existence the new Association began the study of two closely related subjects, that have continued to occupy a large amount of the time and energy of the organization—namely, the questions of academic freedom and tenure, and the relation of the faculty to the administrative and governing bodies of colleges and universities. The question of academic freedom and tenure was taken up at once. In fact, some preliminary thought had been given to this issue by a joint committee of nine, appointed in December, 1913, and representing the American Economic Association, the American Sociological Society and the American Political Science Association. At the first meeting (January, 1915) of the American Association of University Professors it was decided to take up the problem of academic freedom and the President of the Association was authorized to appoint a committee of fifteen, which should include, so far as the members were eligible, this joint committee of nine. The committee of fifteen became Committee "A"—the Committee on Academic Freedom and Tenure.

This Committee was immediately faced with the consideration of a number of specific cases of alleged infringement of academic freedom. Eleven cases were laid before it the first year. Because of their significance it was decided to make special inquiries into five of these cases. Four of the other cases were brought

to the attention of the specific scientific association, to which the individual affected belonged. In the five cases investigated, the Committee decided to appoint special committees of inquiry and to advise with these as to questions of principles and in methods of procedure, a practice that has continued to govern the investigations conducted under the permanent committee on this subject (Committee A). This left the parent committee free to consider the whole problem of academic freedom and formulate a report thereon. The report was submitted by the Committee and was accepted and approved at the annual meeting in December, 1915. This report constitutes the declaration of principles of the Association on the subjects of academic freedom and academic tenure. In investigating specific cases, the subcommittees making the inquiry have been instructed to consider the facts in the light of the principles contained therein. Because of the importance attached to these principles by the Association, an extended abstract of this report will be given here.

WHAT IS "ACADEMIC FREEDOM"?

"The term 'academic freedom,'" says the report, "has traditionally had two applications—to the freedom of the teacher and to that of the student, *Lehrfreiheit* and *Lernfreiheit*. It needs scarcely be pointed out that the freedom which is the subject of this report is that of the teacher. Academic freedom in this sense comprises three elements: freedom of inquiry and research; freedom of teaching within the university or college; and freedom of extramural utterance and action. The first of these is almost everywhere so safeguarded that the dangers of its infringement are slight. It may therefore be disregarded in this report. The

second and third phases of academic freedom are closely related, and are often not distinguished. The third, however, has an importance of its own, since of late it has perhaps more frequently been the occasion of difficulties and controversies than has the question of freedom of intra-academic teaching.

"All five of the cases which have recently been investigated by committees of this Association have involved, at least as one factor, the right of university teachers to express their opinions freely outside the university or to engage in political activities in their capacity as citizens. The general principles which have to do with freedom of teaching in both these senses seem to the Committee to be in great part, though not wholly, the same. In this report, therefore, we shall consider the matter primarily with reference to freedom of teaching within the university, and shall assume that what is said thereon is also applicable to the freedom of speech of university teachers outside their institutions, subject to certain qualifications and supplementary considerations which will be pointed out in the course of the report.

"An adequate discussion of academic freedom must necessarily consider three matters:

(1) The scope and basis of the power exercised by those bodies having ultimate legal authority in academic affairs.

(2) The nature of the academic calling:

(3) The function of the academic institution or university."

THE POWER OF THE TRUSTEES

On the subject of academic authority, the report recognizes the trustees as the "ultimate repositories of power," but raises the question of the responsibilities which this power imposes

upon the trustees as it affects the question of academic freedom. On this latter point the report differentiates between two types of institutions, (a) proprietary institutions, and (b) those in the nature of a public institution. In connection with the first type, the report recognizes the responsibilities imposed upon the trustees, if an institution is founded to promote a particular religious, political or economic doctrine. In such institutions the trustees have a "right to subordinate everything to that end." Such institutions "do not, at least as regards one particular subject, accept the principles of freedom of inquiry, of opinion and of teaching; their purpose is not to advance knowledge by the unrestricted research and unfettered discussion of impartial investigators, but rather to subsidize the promotion of the opinions held by persons, usually not of the scholar's calling, who provide the funds for their maintenance." The Committee holds that "genuine boldness and thoroughness of inquiry, and freedom of speech, are scarcely reconcilable with the prescribed inculcation of a particular opinion upon a controverted question."

Concerning the second type of institutions, the report holds that the duty of the trustees is plain. They are trustees for the public and therefore can not assume the proprietary attitude and privilege if they are appealing to the general public for support. Trustees of such universities or colleges have no moral right to bind the reason or conscience of any professor. "It follows that any university which lays restrictions upon the intellectual freedom of its professors proclaims itself a proprietary institution, and should be so described when it makes a general appeal for funds."¹

¹ In his annual report President Butler of Columbia makes the following statement con-

NATURE OF THE ACADEMIC CALLING

On the nature of the academic calling, the report has this to say:

"If education is the cornerstone of the structure of society and if progress in scientific knowledge is essential to civilization, few things can be more important than to enhance the dignity of the scholar's profession with a view to attracting into its ranks men of the highest ability, of sound learning, and of strong and independent character. This is the more essential because the pecuniary emoluments of the profession are not, and doubtless never will be, equal to those open to the more successful members of other professions. It is not, in our opinion, desirable that men should be drawn into this profession by the magnitude of the economic rewards which it offers; but it is for this reason the more needful that men of high gifts and character should be drawn into it by the assurance of an honorable and secure position, and of freedom to perform honestly and according to their own consciences, the distinctive and important function which the nature of the profession lays upon them.

"That function is to deal at first hand, after prolonged and specialized technical training, with the sources of knowledge; and to impart the results of their own and of their fellow-specialists' investigations and reflections, both to students and to the

cerning the attempt to control the educational policies of universities. He says, "Under no circumstances should, or can, any self respecting university accept a gift upon conditions which fix or hamper its complete freedom in the control of its own educational policies and activities. To accept a gift on condition that a certain doctrine or theory be taught or be not taught, . . . is to surrender a university's freedom and to strike a blow at what should be its characteristic independence. Indeed, any donor who would venture to attempt to bind a university

general public, without fear or favor. The proper discharge of his function requires (among other things) that the university teachers shall be exempt from any pecuniary motive or inducement to hold, or to express, any conclusion which is not the genuine and uncolored product of his own study or that of fellow specialists. Indeed, the proper fulfilment of the work of the professorate requires that our universities shall be so free that no fair-minded person shall find any excuse for even a suspicion that the utterances of university teachers are shaped or restricted by the judgment, not of professional scholars, but of inexpert and possibly not wholly disinterested persons outside of their ranks. The lay public is under no compulsion to accept or to act upon the opinions of the scientific expert whom, through the universities, it employs. But it is highly needful in the interests of society at large, that what purports to be conclusions of men trained for, and dedicated to, the quest for truth, shall in fact be the conclusions of such men, and not echoes of the opinions of the lay public, or of the individuals who endow or manage universities."

FUNCTION OF THE ACADEMIC INSTITUTION

On the function of the academic institution, the report sets forth the following:

'The importance of academic free-

either as to the form or the content of its teachings or as to its administrative policies, would be a dangerous person. Unless the public can have full faith in the intellectual and moral integrity of its universities and complete confidence that they direct and are responsible for their own policies, there can be no proper and helpful relationship between the universities and the public. A university may accept a gift to extend and improve its teaching of history, but it may not accept a gift to put a fixed and definite

dom is most clearly perceived in the light of the purposes for which universities exist. These are three in number:

A. To promote inquiry and advance the sum of human knowledge.

B. To provide general instruction to the students.

C. To develop experts for various branches of the public service.

"Let us consider each of these. In the earlier stages of a nation's intellectual development, the chief concern of educational institutions is to train the growing generation and to diffuse the already accepted knowledge. It is only slowly that there comes to be provided in the highest institutions of learning the opportunity for the gradual wresting from nature of her intimate secrets. The modern university is becoming more and more the home of scientific research. There are three fields of human inquiry in which the race is only at the beginning: natural science, social science and philosophy and religion, dealing with the relations of man to outer nature, to his fellow men, and to the ultimate realities and values. In natural science, all that we have learned but serves to make us realize more deeply how much more remains to be discovered. In social science, in its largest sense, which is concerned with the relations of men in society and with the condi-

interpretation good for all time, upon the facts of history. A university may accept a gift to increase the salaries of its professors, but it may not accept a gift for such purpose on condition that the salaries of professors shall never exceed a stated maximum, or that some professors shall be restricted as others are not in their personal, literary or scientific activities. No university is so poor that it can afford to accept a gift which restricts its independence, and no university is so rich that it would not be impoverished by an addition to its resources which tied the hands of its governing boards." (Annual Report, 1919, pp. 7, 8.)

tions of social order and well being, we have learned only an adumbration of the laws which govern these vastly complex phenomena. Finally, in the spiritual life, and in the interpretation of the general meaning and ends of human existence and its relation to the universe, we are still far from a comprehension of the final truths, and from a universal agreement among all sincere and earnest men. In all these domains of knowledge, the first condition of progress is complete and unlimited freedom to pursue inquiry and publish its results. Such freedom is the breath in the nostrils of all scientific activity.

"The second function—which for a long time was the only function—of the American college or university is to provide instruction for students. It is scarcely open to question, that freedom of utterance is as important to the teacher as it is to the investigator. No man can be a successful teacher unless he enjoys the respect of his students, and their confidence in his intellectual integrity. It is clear, however, that this confidence will be impaired if there is suspicion on the part of the students that the teacher is not expressing himself fully or frankly, or that the college and university teachers in general are a repressed and intimidated class who dare not speak with that candor and courage, which youth always demands of those whom it is to esteem. The average student is a discerning observer, who soon takes the measure of his instructor. It is not only the character of the instruction, but also the character of the instructor that counts; and if the student has reason to believe that the instructor is not true to himself, the virtue of the instruction as an educative force is incalculably diminished. There must be in the mind of the teacher no mental reservation.

He must give the student the best of what he has and what he is.

"The third function of the modern university is to develop experts for the use of the community. For if there is one thing that distinguishes the more recent development of democracy, it is the recognition by legislators of the inherent complexities of economic, social, and political life and the difficulty of solving problems of technical adjustment without technical knowledge. The recognition of this fact has led to a continually greater demand for the aid of experts in these subjects, to advise both legislators and administrators. The training of such experts has, accordingly, in recent years, become an important part of the work of the universities; and in almost every one of our higher institutions of learning the professors of the economic, social and political sciences have been drafted to an increasing extent into more or less unofficial participation in the public service. It is obvious that here again the scholar must be absolutely free not only to pursue his investigations, but to declare the results of his researches, no matter where they may lead him or to what extent they may come into conflict with accepted opinion. To be of use to the legislator or administrator, he must enjoy their complete confidence in the disinterestedness of his conclusions.

"It is clear, then, that the university cannot perform its threefold function without accepting and enforcing to the fullest extent the principle of academic freedom. The responsibility of the university as a whole is to the community at large, and any restriction upon the freedom of the instructor is bound to react injuriously upon the efficiency and morale of the institution, and therefore ultimately upon the interest of the community."

CORRELATIVE OBLIGATIONS OF THE SCHOLAR

The report recognizes that rights impose duties and that academic freedom for the teacher entails correlative obligations. On this subject the report declares as follows:

"The claim to freedom of teaching is made in the interest of the integrity and of the progress of scientific inquiry; it is, therefore, only those who carry on their work in the temper of the scientific inquirer who may justly assert this claim. The liberty of the scholar within the university to set forth his conclusions, be they what they may, is conditioned by their being conclusions gained by a scholar's method and held in a scholar's spirit; that is to say, they must be the fruits of competent and patient and sincere inquiry, and they should be set forth with dignity, courtesy, and temperateness of language. The university teacher, in giving instruction upon controversial matters, while he is under no obligation to hide his own opinion under a mountain of equivocal verbiage, should, if he is fit for his position, be a person of a fair and judicial mind; he should, in dealing with such subjects, set forth justly, without suppression or inuendo, the divergent opinions of other investigators; he should cause his students to become familiar with the best published expressions of the great historic types of doctrine upon the questions at issue; and he should above all, remember that his business is not to provide his students with ready-made conclusions, but to train them to think for themselves, and to provide them access to those materials which they need if they are to think intelligently."

The report holds that the power to determine departures from the scientific spirit and method should be

vested in the academic profession. "Intervention by any other bodies can never be exempt from the suspicion that it is dictated by other motives than zeal for the integrity of the science." However disagreeable the task, the Committee held that the obligation to rid the profession "of the incompetent and the unworthy and to prevent the freedom which it claims in the name of science from being used as a shelter for inefficiency, for superficiality or for uncritical and intemperate partisanship" must be assumed by the profession. A special obligation rests upon the teacher of immature students. In such cases scientific truth should be presented with discretion and with consideration for the students' preconceptions and traditions, and with due regard to character-building. The teacher should not take unfair advantages of the students' immaturity to indoctrinate him with the teacher's own opinions before the student has had an opportunity to examine other opinions or develop sufficient judgment to formulate independent opinions of his own. The teacher should strive to stimulate an intellectual interest and develop the habit of patient and methodical consideration of both sides of every controverted question. On the question of "class-room utterances," the Committee holds that these should be regarded as "privileged communications," since they are often designed to provoke opposition or arouse debate. Such utterances should not be made the basis of passing judgment on the positions held by the teacher.

EXTRA-MURAL UTTERANCES

In respect to extra-mural utterances, the report holds that academic teachers are under "peculiar obligations to avoid hasty or unverified or exaggerated

statements and to refrain from intemperate or sensational modes of expression." But, subject to these restraints, it is not, in the opinion of the Committee, desirable that scholars should be debarred from giving expression to their judgment upon controversial questions, or that their freedom of speech, outside the university, should be limited to questions falling within their own specialty.² The Committee quotes with favor, a statement from a non-academic body that, "it is neither possible nor desirable to deprive a college professor of the political rights vouchsafed to every citizen."

In concluding its report, the Committee said:

"It is, it will be seen, in no sense the contention of this Committee that academic freedom implies that individual teachers should be exempt from all restraints as to the matter or manner of their utterances, either within or without the university. Such restraints as are necessary should in the main, your Committee holds, be self-imposed, or enforced by the public opinion of the profession. But there may, undoubtedly, arise occasional cases in which the aberrations of individuals may require to be checked by definite disciplinary action. What this report chiefly maintains is that such action cannot with safety be taken by bodies not composed of

members of the academic profession. Lay governing boards are competent to judge concerning charges of habitual neglect of assigned duties on the part of individual teachers, and concerning charges of grave moral delinquency. But in matters of opinion, and of the utterance of opinion, such boards cannot intervene without destroying, to the extent of their intervention, the essential nature of a university—without converting it from a place dedicated to openness of mind, in which the conclusions expressed are the tested conclusions of trained scholars, into a place barred against the access of new light, and precommitted to the opinions or prejudices of men who have not been set apart or expressly trained for the scholar's duties.

"It is, in short, not the absolute freedom of utterance of the individual scholar, but the absolute freedom of thought, of inquiry, of discussion and of teaching, of the academic profession, that is asserted by this declaration of principles. It is conceivable that our profession may prove unworthy of its high calling, and unfit to exercise the responsibilities that belong to it. But it will scarcely be said as yet to have given evidence of such unfitness. And the existence of this Association, as it seems to your committee, must be construed

cease to be a free citizen. . . . It is not a question of academic freedom, but of personal liberty from restraint, yet it touches the dignity of the academic career. . . . There is another (objection), not less weighty from that (standpoint) of the institution itself. If a university or college censors what its professors may say, if it restrains them from uttering something that it does not approve, it thereby assumes responsibility for that which it permits them to say. This is logical and inevitable, but it is a responsibility which an institution of learning would be very unwise in assuming." (Quoted in February-March 1918 *Bulletin of American Association of University Professors*, pp. 12-15.)

² President Lowell has this to say on this point: "In spite, however, of the risk of injury to the institution, the objections to restraint upon what professors may say as citizens seems to me far greater than the harm done by leaving them free. In the first place, to impose upon the teacher in a university restrictions to which the members of other professions, lawyers, physicians, engineers, and so forth, are not subjected, would produce a sense of irritation and humiliation. In accepting a chair under such conditions a man would surrender a part of his liberty; what he might say would be submitted to the censorship of a board of trustees, and he would

as a pledge, not only that the profession will earnestly guard those liberties without which it can not rightly render its distinctive and indispensable service to society, but also that it will with equal earnestness seek to maintain such standards of professional character, and of scientific integrity and competency, as shall make it a fit instrument for that service."

ENFORCEMENT OF PRINCIPLES OF TENURE

Four measures were proposed by the Committee as necessary steps in putting the principles of its report into operation:

1. *Action by Faculty Committees on Reappointments.* It was held that official action relating to reappointments and refusals of reappointments should be taken only with the advice and consent of some board or committee representative of the faculty.

2. *Definition of Tenure of Office.* In every institution there should be an unequivocal understanding as to the term of each appointment; and the tenure of professorships, and associate professorships, and of all positions above the grade of instructor, after ten years of service should be permanent. In state universities, incapable of making binding contracts for more than a limited period, the governing boards should announce their policy with respect to the presumption of reappointment in the several classes of positions and such announcements should be regarded as morally binding. No university teacher of any rank should, except in cases of grave moral delinquency, receive notice of dismissal or refusal of reappointment, later than three months before the close of any academic year, and in the case of teachers above the grade of instructor, one year's notice should be given.

3. *Formulation of Grounds for Dismissal.* In every institution the grounds which will be regarded as justifying the dismissal of members of the faculty should be formulated with reasonable definiteness; and in case of institutions which impose upon their faculties doctrinal standards of a sectarian or partisan character, these standards should be clearly defined and the body or individual having authority to interpret them in case of controversy, should be designated.

4. *Judicial Hearings Before Dismissal.* Every university or college teacher should be entitled, before dismissal³ or demotion, to have the charges against him stated in writing in specific terms and to have a fair trial on those charges before a special or permanent committee chosen by the faculty senate or council, or by the faculty at large. At such trial the teacher accused should have full opportunity to present evidence, and, if the charge is one of professional incompetency, a formal report upon his work should first be made in writing by the teachers of his own department and cognate departments in the university, and, if the teacher concerned so desires, by a committee of his fellow specialists from other institutions, appointed by some competent authority.

In all of the cases that have been investigated by the Association the specific facts found have been considered in the light of the principles set forth in this report. The practical proposals have likewise become the method approved by the Association for dealing with dismissal cases. The Association has striven to give these principles as wide publicity as possible through the discussions that have centered around the specific cases investigated.

³ This does not refer to refusals to reappoint at the expiration of definite terms of office.

THE FACULTY IN UNIVERSITY GOVERNMENT

The problem of putting these principles into effect is closely associated with the position taken by the Association upon the second question mentioned above, namely, the place and function of the faculty in university government. Thereport of Committee T, submitted at the annual meeting in 1920, may be said to set up a standard to be attained on this subject. On this problem there is by no means the same unanimity of opinion nor has the Association put itself on record in favor of a particular position, as has been done on the question of academic freedom and tenure. Committee T was appointed in 1917 and its report⁴ contains not only the recommendations of the Committee but also the present practice in the leading institutions of the country. For the purposes of this article the specific recommendations of the Committee are of importance.

I. *Boards of Trustees and Faculties.* The Committee held that the faculty should be represented in some manner at regular or stated meetings of the board of trustees for the purpose of discussing general educational policies. The majority of the Committee favored a conference committee for this purpose rather than faculty members regularly elected to membership on the board of trustees.

II. *The President and the Faculty.* The President should be the educational leader and its chief administrative officer both with regard to the functions of the trustees and those of the faculty. Since the Committee held that the president should be more of an educational leader than an administrative expert, it was of the opinion that he should be chosen "for broad scholarship, insight into educa-

tional needs and problems and power of leadership, no less than for administrative skill." In the selection of the president, the Committee held that he should be nominated by a joint committee composed of trustees and faculty.

III. *Deans and the Faculty.* The Committee recognized the wide diversity of practice in the functions performed by deans. In the smaller institutions, he is chiefly a disciplinary officer; in institutions divided into schools for administrative purposes, he becomes the administrative head of the school or college. Recognizing the wide diversity of practice, the Committee laid down certain considerations on the functions of, and manner of choosing, deans as a basis for discussion rather than a proposal for acceptance. The significance of these propositions is the light they throw on the developing opinion among faculty members in regard to the form of organization of colleges and universities.

The propositions laid down by the Committee are as follows: The dean should be the chief administrative officer of the faculty of which he is a member. He should formulate and present to the faculty policies for its consideration. This duty does not imply any abridgment of the right of any member of the faculty to present any matter to the faculty. He should be responsible for the enforcement of admission requirements, for oversight of the work of students and be the ordinary medium of communication for all official business with the administrative and governing bodies. This latter proposition is not intended to abridge the right of the faculty in choosing representatives for special conferences with the trustees.

On the question of selection of deans the Committee proposed that a dean

⁴ *Bulletin*, March, 1920.

should be chosen by ~~concurring~~ action, in some form, of the faculty over which he shall preside, the president and the trustees. At the annual meeting in December the Association approved the proposition that a faculty should participate in some form in the selection of its administrative officers, including the president of the institution.

The relative merits of definite and indefinite tenure of the ~~dean~~ is considered in the report, but the Committee concludes that this question can be wisely decided only after a joint determination by the president, trustees and faculties what the duties and functions of a dean are.

IV. *The Faculty and Budget Making.* Here also wise procedure will differ in institutions of different size and kind. The procedure in a state university must differ somewhat from that in a privately endowed institution. But as a fundamental principle the Committee without exception was of the opinion that in all cases the faculty should have a recognized voice in the preparation of the annual budget. In larger colleges or universities this end can be best achieved through a budget committee elected by the faculty. The Committee held that some such plan "would tend to allay the discontent which so frequently arises from inequities in the distribution of the salary budget."

V. *The Faculty.* The faculty should be the legislative body for all matters concerning the educational policy of the university. In institutions consisting of more than one school there should be either a general faculty or an elected body representing all the faculties, for the determination of the educational policy of the university as a whole. Each faculty should determine its own voting membership, its rules of procedure, elect all standing

committees and determine their functions, and should participate, through appropriate committees, in the selection of full professors and executive officers of departments.

Among the standing committees of the general faculty should be a judicial committee of a small number of members, one or more to be elected annually by the faculty. In the event of the proposed dismissal of a member of the instructing staff, on indefinite tenure, the member in question should have the right to full investigation by the judicial committee of the grounds alleged for the proposed action. Failure to sustain the charges before the committee should stop dismissal. The judicial committee should report its findings to the president and the board of trustees.

An investigation was made by Committee A and a report submitted to the annual meeting in Pittsburgh on the extent to which the principles of the Association have been adopted by the various institutions of the country. The information was collected by means of a questionnaire sent to the president or secretary of the local branch of the Association in those institutions which had organized a local group. Replies were received from fifty-four of the fifty-nine branches to which the inquiry was sent. The results of the investigation are of interest and may be summarized as follows:

REPORTS ON ADOPTION OF PRINCIPLES

IN fourteen of the fifty-four institutions reporting, the general faculty exercises, either as a matter of definite rules or as a common administrative practice, some authority over the selection and promotion of the instructional staff or the development of the budget, thus exercising an influence

over the broader educational policies that depend upon the distribution of available funds. In this list appear some of the largest and best known universities and colleges of the country.

But of more direct significance for the present purpose is the presence of faculty influence in dismissal cases. In thirteen of the fifty-four institutions, definite machinery has been set up for dealing with dismissal cases. In some instances the plans have been developed since the organization of the Association and, in one institution, as the direct result of an investigation conducted by the Association. Here again, we find some of the well-known colleges and universities. But in addition to the institutions that have set up a definite procedure for dealing with dismissal cases, it was found that this subject had received attention in twenty-one of the other institutions reporting. In other words, only twenty of the fifty-four institutions reporting admitted that the question of academic freedom and tenure had received no recent consideration by the faculty.

The report reaches the following conclusions:

(1) "There has developed a considerable faculty influence in the control of appointments and dismissals in the institutions studied. Among these are both large and small institutions; both state and endowed institutions. It would seem from the replies that there has been less attention in state than in endowed institutions. Certainly the most completely organized plans for exercising faculty influence in protecting professional standards of academic freedom and tenure appear in the endowed institutions. The problem is more difficult to deal with in a state university on account of the legal relations, and this may explain the difference found.

(2) "The declarations of this Association are gradually becoming recognized as reasonable standards to be attained. An examination of the statutory provisions that have been adopted in recent years will clearly reveal internal evidence of familiarity with the principles of this Association. . . . It would seem, then, that gradually and with no blare of trumpets, the Association has been a potent influence in formulating an opinion in respect to the proper professional standing of the instructional staff of our colleges and universities; in determining what protection is necessary to promote research and the promulgation of truth; what procedure in terminating contractual relations is in keeping with the vital interest of the teacher or research student, and the dignity of the institution."

The evidence shows that the Association is performing an important function in developing a wise public opinion on questions of academic freedom and tenure and in formulating principles and practices in keeping with the dignity of the academic profession.⁵ While these two subjects mentioned in this article have occupied the major part of the energies of the Association to date, they do not exhaust the interests of the membership. These were the immediate questions to receive attention but the influence of the Association has been and will no doubt be, extended to other questions of vital concern to the profession as these may arise and become urgent.

⁵ At the recent annual meeting of the Association of American Colleges, it was voted to "suggest to the American Council of Education either the appointment of a joint commission on academic freedom and academic tenure from its constituent bodies, or the securing of an appointment of such a commission by each of such bodies, with a view of having concerted action and a statement of principles at the earliest possible time."

The Ethics of Librarianship

A Proposal for a Revised Code

By CHARLES KNOWLES BOLTON

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THE librarian's profession is sometimes thought to be of recent origin whereas it is as old as learning itself. At the dawn of civilization we find the priesthood with temples and tablets; while the keeper of records stood from the first as the organizer and custodian of inscribed knowledge. The annals of Mesopotamia, Egypt, Greece and Rome, of monasteries in the deserts of northern Africa or on the Mount of Sinai, all picture the scribe as the preserver of divinations, prayers, proclamations and epics inscribed on clay, papyrus and parchment. The librarian has ever been a scholar, and usually he has been allied with the ceremonials of religion. Ethics, therefore, have been inherent in his profession even when not expressed in a code. The American colonies and then the states, although absurdly modern as compared with the Old World, have outstripped the continent of Europe in developing tax-supported libraries for the benefit of the rank and file of the people. Organization and ideals of service have gone hand in hand. In September, 1853, a convention of fifty-three delegates from libraries assembled in New York, inspired to confer together by the awakening conscience in England three or four years earlier.

The first conference which led to permanent results was held at Philadelphia in 1876, when the American Library Association was formed, and the *Library Journal* was established as its advocate. This organization was followed by state commissions, and local associations, and of late by socie-

ties of librarians allied with special trades and industries. New library periodicals followed, and a keen study of library methods and standards very naturally resulted. We are now at a point where the leaders of library progress who came together at Philadelphia are passing away, leaving the work to younger men and women. They were figures that loom larger as we draw away from their era. Their high ideals for the profession were recorded in addresses and in discussions from time to time during the last fifty years.

Two decades ago the first signs of a code began to win notice. Miss Mary Wright Plummer, a librarian whose character made a lasting impress on the profession, gave an address on the "Pros and Cons of Librarianship" before the Illinois Library Association, April 14, 1903, which was printed in *Public Libraries* for May of the same year. From this address Miss Plummer printed extracts in a leaflet of four pages, entitled "The Fourth Essential." This pioneer effort speaks clearly of a code and therefore seems worthy of record here in full. It is printed from her own revised copy:

Doctors, lawyers and ministers, college professors, officers of the army and navy, have a certain code which presupposes that they are gentlemen and wish to remain such. A breach of this etiquette strikes at the foundations of their order. Librarians and educators in general have their code still to make. The fact that these codes are for the most part unwritten, makes them no less binding; they are like debts of honor, which, although unre-

corded, must be paid first of all debts. If we were making a code for librarianship, what would it have to be to help that calling to rank among the professions? Surely the following would be some of its requirements:

We must have dignity, and if we have to advertise, we must be careful how we do it.

We must have humility. All boasting of ourselves or of our work is out of place.

We must realize our individual limitations and be willing to learn before we try to teach.

We must consider our work one of humanity, and must be ready, like doctors, to attend to pressing cases, in season and out of season. Too rigid holding to one's hours savors of the trades-union.

We must have esprit de corps, and librarianship must be, even more than now, a sort of free-masonry.

We must believe in our work, quietly, not ostentatiously.

We must suppress our natural tendencies, where they conflict with the best interests of the profession, and, if necessary, be willing to give up the work for the good of the work.

It comes to my ears that I am said to be too loud, too boisterous, too flippant and familiar to be in charge of a library, or even on its staff. The thing to do is not to get angry, but to keep a sharp lookout that this criticism shall no longer have the least foundation.

I hear that my methods are antiquated, that I prefer ruts and my own comfort to the service of the public. It is plainly my duty not to resent this without self-examination, and if I find it true, either to infuse more energy and self-denial into my character or to yield my place to some one who can fill it worthily.

We should say to ourselves, Am I, personally, a credit to librarianship, and if not, what is wrong with me? Am I helping to make librarianship a profession, or am I hindering?

Within a year or two several other addresses, touching more or less exactly on ethics, appeared. Miss Genevieve M. Walton's paper, inspired perhaps by an earlier effort by

Miss Linda M. Duval, was typical of the best of these. In 1908 and 1909 a group of librarians was accustomed to dine at frequent intervals in Boston. From this group a tentative code of library ethics was drawn up by the present writer and after discussion point by point it reached the form in seventeen sections printed in *Public Libraries* under the title, "The Librarian's Canons of Ethics." The same code, after being submitted to discussion for three years, was revised, enlarged and reprinted in 1912 with twenty-five sections. These canons of ethics were in turn discussed by the Council of the American Library Association at Chicago in December, 1913, and 1914. The Council's deliberations, as well as the more recent criticisms and suggestions by more than twenty-five of the leading librarians of the United States, have influenced and molded this code of thirty sections which the author herewith presents. Dr. J. I. Wyer, director of the Albany Library School, a library expert of long and varied experience, has, with the aid of his staff, contributed materially to this thorough revision of the subject. Especial phases the author has discussed with Herbert Putnam, librarian of Congress, and H. H. B. Meyer, Arthur E. Bostwick of St. Louis, Azariah S. Root of Oberlin, Bernard C. Steiner of Baltimore, June R. Donnelly of Boston, Hiller C. Wellman of Springfield, George F. Bowerman of Washington, Josephine A. Rathbone of Brooklyn, Clement W. Andrews of Chicago, Frank K. Walter of Minneapolis, Mrs. Julia G. Babcock of California, Phineas L. Windsor of Urbana and with his own staff.

We assume that these canons of ethics stand in the position of counselor to the younger men and women of the profession, combining worldly wisdom with unworldly ideals. They strive

to describe the type of librarian whom Sam Walter Foss, poet, librarian, and man of the world, so eloquently showed forth both in his career and in his writings. It was Mr. Foss who said:¹

The first great cardinal virtues of a librarian should be toleration and enthusiasm. These are qualities that are not easily combined, for a man who is tolerant is usually not enthusiastic, and a man who is enthusiastic is seldom tolerant. A man who combines these two qualities must be lymphatic and nervous at the same time—a kind of hot cake of ice. But we put lemons into lemonade to make it sour and put sugar into the same lemonade to make it sweet. So we put toleration into a librarian to make him judicial, and we put enthusiasm into him to make him human. . . .

If the man is tolerant at the inner core he has the first prime requisite of librarianship. He is ready to stand in his library, as at the threshold of a wayside inn, and welcome all his guests with an equal smile. . . .

Be a public and not a private man. Get out and feel the dynamic thrill that comes from contact with live men. The club, the exchange, the street, the philanthropic and economic organizations that are feeling out for the betterment of mankind are the places where the librarian should be found frequently. He should be the best known man or woman in the city. A dollar bill that never circulates is not worth as much as a coppercent that keeps moving. Nearly every librarian ought to doubt the circulation of his books and trouble the circulation of himself. . . .

He is the custodian of the intellectual treasures of his town; he is the adviser of its scholars, the teacher of its teachers and the keeper of the keys of the vaults of knowledge. The intellectual leadership has passed away, to some extent, from the clergy. The other learned professions—doctors, lawyers and teachers—are so circumscribed by their specialties that they cannot, unless they are very great, become the tolerant and catholic intellectual latitudinarians that we look for in the truly unbiased, educated man. This is the

librarian's modern opportunity. Let him be the intellectual file-leader of his community. Let him grow big enough to fill the great place it is his duty to assume.

Coming now to the canons, we treat first of the librarian's relation to his trustees. Next in order comes his relation to his staff, and their duty to him. And then follows his relation to other librarians. Beyond this lies the all-important relation of a librarian to the public.

Taking up first the librarian's relation to his trustees, we have:

I. RESPONSIBILITY

In the organization of a library by the trustees, much of their authority is usually delegated to the librarian. He should not chafe if the trustees as a body feel called upon from time to time to exercise the authority vested in them as guardians of the public interest.

In a large library a tactful and efficient librarian will accumulate power by that factor in human nature which delegates responsibility as rapidly as an executive officer proves his fitness to exercise authority. This is a menace to the librarian's character unless he returns again and again to the trustees as the source of his authority. He must show readiness to assume responsibility without becoming a law unto himself.

II. AUTHORITY

Under proper conditions the librarian to whom the entire board delegates authority should be able to exercise more power than any single trustee; and since the policy of looking to the librarian for results requires that a considerable measure of authority be delegated to him, habitual distrust of his judgment or disregard of his recommendations may well lead him to seek opportunity for usefulness elsewhere.

In a small library where the trustees comprise the few men and women of literary influence in the town the

¹ *Public Libraries*, March, 1906, page 77.

librarian receives a meagre salary, works for short periods, and is often of necessity a clerk or desk attendant in fact although librarian in name. The delegation of administrative authority to a single trustee is here practical. In the case of a large library this would be destructive of all librarianship. The trustees do a greater service by replacing an incompetent librarian by a new one than by assuming themselves the burden of his work.

III. ALLIANCES

A librarian should not ally himself with one trustee to the exclusion of other members of the board from his confidence.

If a librarian is to confide in one trustee more than in another this should be the chairman of his board or of a committee, a difficult and embarrassing course where the chairman appears to be indifferent and another trustee earnest and peculiarly congenial. But to avoid the pitfall of social, racial or religious cliques he is better off in moderate isolation than as the intimate of a faction. Although the librarian thinks that he knows the type of trustee best suited to the need of his town he is on dangerous ground if he attempts to influence the selection of a trustee.

IV. LOYALTY

When a librarian cannot, in his dealings with the public, be entirely loyal to a policy which is clearly upheld by his trustees, he should indicate to the public, as far as possible, the reasons for this policy without expressing his own opinion; he should also explain his position to the board, and in an extreme case offer to resign.

Stress should be placed on the words *extreme case*, for it is the business of a librarian to get on rather than to get out. Some librarians under impossible conditions believe that an executive should await removal instead of resigning. On the whole a librarian,

like a clergyman, serves his profession best when he keeps away from unpleasant publicity. The obvious remedy for this problem is for the trustees to keep their policy broad and free from detail.

V. SINCERITY

To delay bringing a plan before the trustees until it is certain to obtain adequate presentation and a fair hearing may be considered only common wisdom; but to abstain from urging a project until a known opponent happens to be absent is unprofessional as well as insincere.

This is the old question: Does the end (here the public good) justify the means? Adroitness can be cultivated to a point where it impinges upon intrigue and in that form has more than once proved a fatal accomplishment.

VI. REJECTED MEASURES

A wise librarian, when a measure has been deliberately rejected by his trustees, will not bring it forward again until new conditions prevail.

To see a cherished measure fail from indifference on the part of trustees or perhaps through a chance word of ridicule is hard to bear. But time is long and a librarian has need of serenity.

Turning now to the second of our subjects, the librarian's attitude toward those with whom he labors from day to day, we have a relationship which has been broadened and enriched by a more human understanding. This new spirit which moves on the face of the waters is the essence of the age in which we live.

VII. DUTY TO THE STAFF

A librarian is bound, as opportunity offers, to allow an assistant to prove her ability to do work of a higher character than that usually assigned to her, and to advance those that are capable to more responsible positions in his own library or

elsewhere. He must also spend the money of his institution with due prudence, and get a full return for it in service. Although efficiency of the staff is temporarily reduced by frequent transfer of assistants to new positions or to other libraries, in the end a library whose workers are seen to obtain rapid and solid advancement profits by its reputation in this respect.

It might be said in reply that taxpayers do not conceive of a town library merely as a training school for other municipalities. Nor is the librarian fortunate if, after a term of years, he has lost the brightest of his staff and has retained for a lengthy old age the dull out of all those whom he has trained. Perhaps the only relief is to make the variety of work so attractive and the social opportunities so marked that members of the staff are loath to leave. The librarian should keep his staff familiar with events connected with the library in so far as these contribute to their intelligent interest in its welfare.

VIII. PERMANENCE

Having in mind that not salary but opportunity for service makes librarianship a profession, the worker should not be too eager to move. Permanence makes for dignity and influence in a community. No opportunity to serve the public can honorably be considered merely as a stepping stone or place of passage.

This canon partakes of the nature of sacrifice, but a librarian who is not at heart a missionary has chosen the wrong outlet for his energies. Under ordinary circumstances a year is the least period of service that should satisfy the conscience of an assistant.

It scarcely seems necessary to add that a librarian who has no real thought of resigning employs a doubtful expedient if he tells his trustees that he thinks of moving on unless his salary is increased.

IX. INDIVIDUAL RESPONSIBILITY

Each member of the staff should be regarded by the librarian as an individual, a colleague, capable of performing his particular work, and encouraged to feel his individual responsibility for this work. Where public recognition of work of outstanding merit will advance the interests of an assistant the librarian should be quick to grant it.

The wise librarian will allow to the intelligent assistant latitude in the enforcement of rules, and in their interpretation. The degree of latitude will depend on the rank and character of the assistant.

On the other hand, assistants too often claim advancement for performing the minimum work required. It is safe to say that an assistant who habitually does more than is asked cannot be kept in obscurity.

X. RECOMMENDATIONS

Breaches in morality and honesty are fundamental, and should be mentioned discreetly if a "recommendation" is given. Peculiarities in personality may be handicaps in one library but assets in a library of a different type. A wise librarian may mention but should not stress these, and the librarian to whom recommendations are sent will weigh so-called "defects" in the light of his own conditions and environment.

To recommend an unsatisfactory assistant, merely to get rid of that assistant, is unworthy of any administrator.

Recommendations are an important function of a librarian's routine, and upon them careers depend for success or failure. Charity and conscience must between them determine the degree of fidelity which the portrait is to assume.

XI. THE STAFF'S DUTY TO THE LIBRARIAN

A librarian has a right to entire loyalty from his staff, although he may be called upon at times to face frank comment from them. Such criticism should never go beyond the library doors, nor should the staff carry complaints over the librarian's

head to the trustees, except in extreme cases.

Conversely, the librarian's criticism of a member of the staff should be as private as the welfare of the library will permit. For just treatment the staff look to the librarian, and the trustee who comes between the librarian and a member of his staff lessens executive authority and in the end breaks up the morale of the entire staff.

XII. THE STAFF'S DUTY TO THE LIBRARY

An assistant should not allow personal antagonisms within the library to injure efficiency, nor should the staff tolerate a cabal of congenial spirits that tends to break up the membership into groups ready at hand for rivalries and jealousies.

Long periods of idleness in the case of an assistant should be called to the attention of the superior officer. Leisure has its dangers, and should be used for self-improvement as the best return for compensation received.

XIII. THE WORK AND THE WORKER

The assistant should realize that the work is more important than the worker; that the assignment of an uncongenial task is not due to a personal grudge nor a slight to the assistant, but a necessity enforced by the work that must be done by someone.

In the assignment of work and arrangement of schedule of hours, marked leniency toward members of long service, thereby shifting burdens to younger assistants, creates an unsatisfactory atmosphere. Long service should rarely be urged as a reason for favored treatment, nor should a low salary be advanced as an excuse for poor work.

XIV. PERSONAL OBLIGATION

Each assistant should realize his own personal obligation as a public servant to each library patron. He should strive always to be courteous and pleasant, re-

membering that the staff stands as the interpreter of the library to the public and that it may be materially helped or harmed by his individual conduct.

An assistant sometimes fails to realize that some of the more desirable constituents who use the library are shy. To the mind of such a user of books the friendly assistant personifies the library. Habitual ridicule in private of mistakes or ignorance on the part of the public will affect, eventually, the conduct of the assistant.

XV. HEALTH

Health is an assumed qualification in a librarian's equipment, and continued ill health does not ordinarily entitle an employe to favored treatment by a public institution.

Conversely, the library should conserve the health of the staff by furnishing the best possible equipment as regards light, air, sanitation, and rest.

Unfortunately the ill health of one assistant throws routine burdens on other members of the staff. It is a duty therefore to keep fit out of consideration for others. Miss Rathbone says: "Far more than ever before do men today realize that health is a matter of individual achievement, the result of intelligent effort." In large libraries a medical adviser is connected with the staff and obviously has a quasi-jurisdiction over their habits of life outside of library hours. Illness in the family is not a valid claim for absence with pay. Each case must be met on its merits.

XVI. NOTICE OF RESIGNATION

Ethically considered, the assistant should, when seeking a change of position or when considering a definite offer from another library, consult the superior officer; but the personality of a superior officer will inevitably influence an assistant's course of action. Having accepted a position, the assistant should give adequate notice before leaving.

This subject is perhaps the most controversial of all those which are treated in these canons of ethics. It has been suggested that one's dissatisfaction should be brought to the attention of the librarian, in order that conditions may be remedied. But a mere notice that an assistant is "looking about" may result in uncomfortable personal relations lasting for several months or even years. The librarian should be careful not to prejudice himself against an assistant who desires advancement in another field of service when the right opportunity offers.

A librarian owes much to other librarians and to the professional associations, which are created for mutual benefit. We are not free lances engaged in warfare with our fellow-workers. In these relations we have:

XVII. EXPERT ADVICE

A librarian may not accept an appointment to act as an expert adviser to the trustees of another library, even when solicited, without the request or at least without the full knowledge, of the librarian concerned.

The analogy is to be found in the physician, who may not advise a patient unless the attending physician requests it, or until the attending physician has been dismissed. At the same time there are the "survey" and the "efficiency test" that are becoming popular means of improving conditions. The expert librarian will in time take his place with the "consulting expert." It is a natural function of the leader in his profession. Nevertheless there must be reasonable consideration for the humbler brother of the same profession.

XVIII. PRIVATE ADVICE

A librarian should feel free to claim counsel from others in the same calling, and should be willing to give such counsel

when requested, without publicity or expense.

One of the outstanding merits of a certain librarian who was still "in harness" at the age of ninety-two was his willingness to consult men young enough to be his grandsons. Questionnaires, however, too often go beyond bounds in their call upon the librarian's time.

XIX. RIVALRY

Librarians should be slow to publish statistics in order to show superiority of a library over neighboring libraries, such statistics often requiring qualification or explanation. A similar comparison in words is of questionable taste, and any printed criticism should always bear clearly the librarian's name.

One can turn to annual reports of librarians which give comparative statistics with the undoubted desire to enlighten taxpayers. At the same time in so doing the librarian may embarrass other librarians who happen to be placed in a less favorable position.

XX. ENGAGING AN ASSISTANT

A librarian may not take the initiative in negotiation for the services of an assistant in another library until he has made his intention known to the assistant's superior officer; or he may make his intention known to both assistant and official superior simultaneously.

Objection has been raised to consultation with a librarian over his minor assistant, but most librarians agree that before negotiations begin with an important member of another staff courtesy at least calls for a personal letter to his or her chief.

XXI. PREDECESSORS

A librarian who makes a habit of commenting unfavorably on the work of his predecessors in office invites criticism of his good taste.

The coming of a new librarian is a strain upon the staff, and if the mem-

bers are to give him their loyalty he should not speak slightly of one to whom they have given their loyalty in the past.

A librarian's obligation to the public exists in many forms. He needs to keep constantly before his mind that it is the *use* of knowledge rather than the storage and classification of knowledge that is the vital factor in his work.

XXII. A LIBRARIAN'S PROVINCE

It is the librarian's duty to be a force in the community, and contact with people even more than with books engenders force. We must not confuse the duties of librarian and assistant; the one is always associated with *people*, although in a small library he (or she) may do all the work; the assistant may or may not be called upon to meet the public, but generally has specific duties to which specific hours must be given.

The great Panizzi of the British Museum so far failed to heed the principle involved in this canon that he came very near to losing his position. He wished to do the work of a bibliographer, delegating his powers to a subordinate while he retained the honors of a head librarian. The subordinate by contact with people soon became his master.

Censorship of reading is a perilous No Man's Land on the boundary of a librarian's province. How far an executive should go in exposing for use books which are in his opinion destructive of morals and society, and those issued frankly as propaganda, is a serious question. The annunciation of a policy lies with a board of trustees, rather than with the librarian. Mr. H. C. Wellman in an address entitled "An Article of Faith" discusses very clearly the librarian's responsibility in the field of censorship.

XXIII. REPUTATION

A reputation acquired by work for the public in the profession or in kindred paths of

service adds to the dignity and power of the librarian. But the value of the work must advertise the worker, and self-advertising is outside the pale.

A profession is like a sonnet. It confines the effort to a prescribed channel, but stimulates a higher standard of excellence within the self imposed bounds.

XXIV. BEARING IN PUBLIC

A librarian as a person of influence, and seeking the respect of all his fellow-citizens, cannot carelessly choose his company, nor indulge in habits and tastes that offend the social or moral sense. These self-limitations are in the nature of hostages which he gives for the general good. He must not limit his advisers to one circle, for he needs a wide horizon, ready sympathies, and the good will of all classes.

One may have heard a librarian say: "It is nobody's business what I do outside the library." That type of library worker has merely mistaken his calling and should change his vocation.

XXV. USE OF HIS NAME

A librarian should stand on neutral ground and should be chary of lending his name to a public controversy to add weight to the contention of a local faction, or to commercial enterprises, even those that have an educational or philanthropic motive. Having a financial interest in any material device, invention, or book proposed for purchase in his library, the librarian should inform his trustees of this interest. It would be better not to have a financial interest in companies whose business is largely with libraries.

His advice will very naturally be sought by his constituents increasingly as his influence grows, but giving for publication a testimonial to a book is likely to lead to serious abuses. Standing on neutral ground, he should be all things to all men. "He loves all ideas—even when he despises them and disbelieves in them—for he knows

that the ferments and chemical reactions of ideas keep the old world from growing mouldy and mildewed and effete."²

XXVI. HONORARIUM

An honorarium for work done in library hours should not be accepted, and a librarian should be slow to undertake commissions for work outside library hours which might easily be executed in library hours without expense to the citizen.

If a librarian feels impelled to add to his income by outside work it is wiser to earn by an avocation than by his vocation. Work which claims much of the librarian's strength and does not add directly or indirectly to his reputation or to that of the institution should be made known to the trustees.

Beyond this there is a limitless field for our canons of ethics to cover. We cannot hope to mention all the ways in which a librarian may be stimulated to high ideals. In his personal relation to books we may say:

XXVII. BOOK SELECTION

Purchases of books should reflect the needs of the community rather than the personal taste or interest of the librarian. His selection of books should be catholic, and his power to guide be exercised with discretion.

A library is not a collection of books made after a fixed pattern. Each community has its bookish needs unlike those of any other community under the sun. It is this infinite variety that gives the profession which collects and makes books useful its attraction.

² Sam Walter Foss.

XXVIII. SPECIALIZING

The librarian should not permit specialized book collecting or book reading to narrow his field of interest, nor to bias his judgment, nor to make him a rival collector to his library. The number of points of contact with knowledge and with his public determines to some extent the librarian's usefulness.

The fringes of all knowledge bound the administrator's province, but he, like his assistant, may by mastery of a single subject increase the renown and the usefulness of his library.

XXIX. RELATION TO AGENTS

A librarian is bound to expend the funds intrusted to him with the best interest of the library in view. But he should remember that in employing an expert, ability and efficient service are worthy of proper compensation, and to sacrifice them for slightly better terms or to make frequent changes may not result to the library's permanent advantage.

He should not jeopardize his independence by accepting special favors from business firms.

If a librarian is in doubt about the propriety of accepting a gift he should at least insist that the gift be public knowledge. Favors often come disguised in a form to flatter the unsuspecting librarian.

And in conclusion:

XXX. PROFESSIONAL SPIRIT

The literature and the organizations of the profession claim consideration from the earnest and progressive librarian.

A high professional spirit calls for sound training, clear ethical standards, and sustained enthusiasm for the fellowship of librarians. *Non ministrari sed ministrare.*

The Ethics of the Ministry

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IT might be possible to make a brief article on this subject by saying that the ministry as a body has no code of professional ethics. This statement would be true enough if by a professional code we mean one that is formally accepted by all who are called ministers. There is for the ministry no formulated code defining conditions of membership and giving formal standards concerning professional conduct. Yet this statement, while true in form, would be far from the truth and would convey a wholly wrong impression. For the ministry as a body of men dedicated to a certain life and service, has very rigid standards by which men are pledged and their conduct is tested.

The various professions have their codes and standards. Why is it that the ministry, which is supposed to represent the highest ideals, has no such formulated and recognized code? The answer to this question will carry us a part of the way toward the answer to our larger question.

The ministry is regarded as a calling rather than a profession. Whatever may be the motives which induce men to enter the various other professions, such as medicine, law, teaching, engineering, or the various vocations, as business, banking, manufacturing or trade, there is but one motive that is supposed to be dominant in the ministry. Men in the ministry are expected to know the will of God, to interpret His truth to men, to be spokesmen for God and His cause in the world. "No man taketh this office on himself, but he that is called of God." Practically all religious bodies hold this conception; they therefore expect all who

would enter the ministry to have a valid call from God; they believe that this call is higher than any considerations of personal profit or pleasure. In these times at least, in practically every communion, a man who admitted or gave men reason to believe that he was actuated by selfish motives, would be sadly discredited. Theoretically, at least, he is a man set apart by a special call for a special work. We need not discuss the question how far the ministry as a body is true to this conception; nor need we here inquire how far the conduct of ministers in general justifies their high office. We are accounting for the fact that there is no formulated code of ethics for the ministry.

REASONS FOR LACK OF FORMAL CODE

It is felt that such a professional code of ethics would cast discredit upon the very idea of the ministry. It is expected also, by the very nature of their calling, that its practitioners will be men preëminent in all the virtues that are esteemed among men.

Then, as every one knows, the religious bodies are divided into many and divers denominations. Religious convictions or opinions, whichever word may be accepted, are probably the strongest in human nature and take precedence of all others. It follows, then, that religious divisions and differences are very strong and keep the churches apart. In some cases a religious body regards itself as the only true church, and hence regards all other bodies simply as sectarians, if not heretics. It is therefore impossible to bring together representatives of the stronger religious bodies for the full

and free discussion of any questions either of faith, polity or conduct. So in the medical profession there are several schools of medicine and, as every one knows, there is much criticism and rivalry. But all schools recognize certain obligations toward patients and certain methods of procedure. Thus while each religious body has, nevertheless, its own standards and codes, all of these are high and right.

In every body with any such thing as a recognized ministry, there is some ordination service. At this time there is careful scrutiny of the candidate's life, his call to the ministry, his fitness for the work, his ability to adorn the calling to which he is set apart. In all of these bodies there is some supervisory official, Bishop, Presbytery or Council, that may be asked to pass upon the man's life or conduct when in the ministry. When any charges are circulated against him he may be investigated and called to account, and, if found guilty of conduct unbecoming a gentleman and a clergyman, he may be warned, deposed and unfrocked. An unworthy or immoral man may continue for a time; but every one familiar with the inside history of churches knows that in practically every case such conduct brings the revocation of his ordination and his expulsion from the ministry.

As every one knows, and as must be admitted with regret, some ministers do wrong and a few are convicted as criminals. But all this is also testimony to the high standards of the ministry. Perhaps, in proportion to numbers, more ministers are unfrocked than there are lawyers disbarred. But, be it understood, ministers are unfrocked for private conduct, which does not enter into account against an attorney. No man can long continue in the ministry of any religious body who is known to be immoral in sex matters.

The standards of the ministry include the personal and private life; whereas, professional codes deal primarily with professional conduct. The professions expel a member whose professional conduct brings reproach upon the professions. The churches discipline men whose private lives are known to be immoral or unworthy.

One other reason may be mentioned why the ministry has not formulated a code of professional ethics. The churches that bear the Christian name have been given some definite principles which cover practically all of the points of a code; and these principles are accepted as authoritative and final. In the New Testament, and especially in the letters of the Apostle Paul to Timothy and to Titus, we have some very definite instructions concerning the ministry. These charges deal with the minister's life and conduct as a man, a husband and father. They define his qualifications in personal character, in aptness to teach, in general deportment. They deal explicitly with his studies, his work as preacher and pastor; they indicate also the motives that are to determine his life and service. These writings, it may be said, are accepted as authoritative by churches and pastors. In view of this, it seems almost needless to attempt any formal and elaborate statement of professional ethics.

In the theological seminaries students for the ministry receive very careful instruction in ministerial ethics. Unfortunately in some bodies a considerable proportion of ministers do not receive any adequate theological and collegiate training. Yet, as I have stated, all churches and ministers accept the writings of the apostles as authoritative. And so it is that all ministers have definite instructions, regarded as inspired, which contain all of the essentials of a professional code.

Thus far we have considered the reasons why the ministry has no professional code of ethics. In so doing we have noted, also, that all religious bodies are exacting in their demands so far as the personal lives of ministers are concerned. There are, however, other facts that must be taken into account in dealing with the ministry as a profession.

Professional codes are designed by the members of the profession themselves and have several definite objects. These objects, as I understand, are intended to maintain the standing and dignity of the profession, to prevent the entrance of the unfit and ill qualified, to provide for the expulsion of any whose conduct brings the profession into reproach and to regulate the conduct of its members in their relations to their patrons and toward the public. So far as the ministry is concerned, it has no formal code covering these points. Yet it has an unwritten code covering these and other points; and some aspects of this may be noted.

SAFEGUARDING THE ENTRANCE

By the nature of the case, such professions as law, medicine, teaching and engineering, demand some specialized training. We grant that the ministry by its very nature, as the interpreter of an authoritative Book and the instructor of the people, requires a large amount of special training. Yet there are many types of service in the ministry, and while adequate collegiate training may be essential for some men, it is not so essential for others. The church must keep a door open for men who have a special call or exceptional ability. In some bodies the educational standards are high and exacting. In other bodies some of the most successful and honored men have had little if any collegiate training.

MAINTAINING THE STANDING AND DIGNITY OF THE PROFESSION. NOBLESSE OBLIGE

There are certain obligations implied in rank, and these are among the finer things of life. Men who have any conception of the meaning of the ministry are quite likely to conduct themselves with decorum and dignity. The ministry by the nature of the case represents the highest ethical and social ideals. This is especially the case with reference to children and the weak, and, even more markedly, in its attitude toward women. Few men are subject to as many special and subtle temptations as ministers. Occasionally one fails and falls. And yet ministers as a body are most careful here to avoid every appearance of evil and to maintain the same attitude toward all.

THE SERVICE MOTIVE

In many, if not all of the professional codes, the idea of service is placed in the very forefront. Members are taught to think of themselves as public servants; and the motive of mere profit or advantage is discouraged. The medical and teaching professions have high standards here. Any discovery that one makes must not be capitalized for one's own profit but must be given to the public. The teacher or physician who patents some discovery or invention is guilty of unprofessional conduct and is usually treated either as a quack or a mere patent medicine vender.

No class of men do as much unpaid service as ministers. Day and night they are ready to respond to the call of sorrow or need. The minister who is suspected of looking after his own financial advantage and forgetting to serve the people, soon is found out and is fatally discredited. Any person of large experience can point to at least one minister who because of his selfish

or non-serving spirit has been discredited and has dropped out of the ministry. Judged by the achievements of business men, physicians and lawyers, there are no large financial successes in the ministry. In one of the larger religious bodies with some eleven thousand ministers, there are not five ministers who receive salaries of ten thousand dollars a year. The minister has forever surrendered the hope of being rich. Of course, like every man he wants an adequate support for his family and some of the comforts of life. But the hope of money reward does not determine his calling, his acceptance of a field, the conduct of his work. More than that, it is expected that he will give his undivided attention to his life's calling. The minister who is carrying side lines for profit and seeking to get rich, is immediately and fatally discredited.

PROTECTING THE PROFESSION

The old principle, long ago enunciated by the Apostle Paul, has a wide application. If one member suffer, all the other members suffer with him; and if one member is honored, all the members rejoice with him. It is right and proper that in every profession men should regard the "honor of the profession," should protect one another and defend any who are unjustly attacked. Every profession must be judged by its usual practices and its better members. No profession should be condemned for the exceptional conduct of the least representative members. Yet every one has known instances where "professional ethics has shielded the unethical conduct of men." Professional ethics has kept the lips of physicians closed when they should have warned the ignorant. Ministers, like all other self-respecting men, hold sacred, confidential information and personal confessions. Very seldom

indeed does one prove faithless here. Yet ministers who are fully faithful find that ethical standards require them very often to counsel people and sometimes warn the innocent. They would consider it unethical to be silent while great wrong was being done.

PROFESSIONAL HONESTY

In all of the professions men are expected to deal frankly and honestly with clients. The high-minded business man will correctly label his goods and will not sell for good wool, material that he knows is poor shoddy. He will not take advantage of his customers to overcharge for any article. The physician is expected to deal fairly with his patient. He will not convey a false impression nor will he keep a man sick to increase his bill. The conscientious attorney will not attempt to deceive the court or the jury. Of course every man is presumed to be innocent till he is proved guilty; and every man is entitled to a fair trial. But professional ethics forbids pettifoggery and deception.

Here we touch a tender nerve in the minister's life. The modern minister, some one has said, is like a man walking among eggs. He has to do with all kinds of people, bad, weak, good, better, best. He is the interpreter of truths which sweep the range of life and make the highest demands of men. He is expected to show men their sins and failings, to warn the unruly, to charge men who are going wrong to repent and change their ways. His very calling requires him to make men know the whole will of God and to guide men's feet into the paths of justice and truth.

There is a subtle temptation here which few appreciate. It is easy for the minister to "accept a situation" and be silent lest he stir up trouble. It is easy for him to prophesy "smooth

things" in order to keep everybody pleased. It is easy for him to denounce unpopular sins, as wife beating, and to pass over the popular sins of people. It is easy to thunder on the minor sins and get a reputation for brave outspokenness, and to soft pedal on the major sins, such as economic oppression and commercial injustice.

Ministers are men and are subject to the limitations of men. Few are men of great ability; fewer still are men of keen insight. But most are men of sincerity and honestly endeavor to deal fairly with the truth. Now and then we find a minister who sells the truth to serve the hour. But I have known thousands of ministers, many of them fully and intimately, and it is my conviction that there is very little paltering with the truth, very little cowardice, still less, "huckstering the Gospel" to serve one's gain. If a man is unknown and unpopular there may be a temptation to win people's favor. If he has become popular with a large following, there is a temptation upon him to flatter the crowd. But in the main standards are high and ministers speak the truth as they see it, come what will.

There is probably no place where sincerity and inner probity are so much needed. Jesus might have made a bargain with the devil, and not a man in His day would ever have known it. The minister today might dim the inner light and serve his own interests without any one's suspecting it. Under these circumstances a formal code of professional ethics would have little meaning or value. The true minister's loyalty must be to an inner standard, to an unseen master, to the applause of his own conscience.

PROFESSIONAL COURTESY

"Every calling, trade or profession has, of course, a strong tendency toward a professional or class con-

sciousness. It naturally secretes and crystallizes a professional or commercial code of ethics, a system of taboo and etiquette, which is likely to become a substitute for the fundamental and vital principles of morality and righteousness." These words of Bishop Williams point out a danger which befalls all men and especially the minister. In every calling, trade or profession there is a tendency for men of each school, business, or group, to flock together and view every question from the point of view of their particular class. Ministers are probably as free from blame here as any class of men; yet not all are above reproach.

In our modern world we have many religious bodies all competing together for the allegiance of the people. Naturally enough men of each communion believe that they have the essential truth of the Gospel; they may not believe that others are all wrong, but they do believe that "we" are most nearly right. Competition in church matters is keen; the church that would prosper must "be up and doing."

The time was when church competition was more intense and less kindly. The time was when ministers of one body had little in common with those of other bodies. But a remarkable change has come in this respect. In practically every city there is a Union Ministers' Conference, where ministers meet to express their brotherly spirit and to consider their common work. The time has gone by when men of one communion disfellowship and denounce those of other communions.

In the trades and professions there are professional codes regulating the conduct of men. It is unprofessional in a physician to advertise his cures or to claim to be a cure-all. It is unprofessional in a merchant to misbrand his goods or to discredit others in the same line of trade. In the same way it is

unprofessional in the minister to resort to sensational and unfair methods in advertising his preaching or his church. In nearly every city there is some one minister who has a large congregation and a popular hearing. So long as he is fair and brotherly all others rejoice in his popularity and prosperity. There is far less professional jealousy than one might suppose.

In practically all of the Protestant bodies, church life and government is becoming ever more democratic. Each congregation as a rule expresses its own preference and calls its own minister. This gives opportunity for intrigue, for clerical narrowness, for professional jealousy to assert themselves. To illustrate: A church is about to call a minister and has some names before it. As a rule the various aspirants for the place are perfectly fair; no one seeks to discredit others in order to enhance his own chances. It sometimes happens, however, that people of one school of doctrine raise questions and spread reports concerning the candidate's soundness in the faith. I have known a number of excellent men who have been undermined in this way. But it is only narrow bigots who resort to such practices; no reputable minister would countenance them.

One other thing: When a minister is

changing pastorate there are certain ethical standards to be observed. Ministers are very restless and many are looking around for a "better" or a "larger" field. It is not regarded as ethical for a minister to coquet with some other call or to seek a call to some other church in order that he may be asked to remain in his present field at a larger salary. It is hardly ethical for a clergyman to accept a call to some other field till he has first conferred with officers of his present church. Of course every real man wants to do the largest work possible; and every minister desires an adequate income for his family. But the question of salary is seldom the first consideration. It is unethical to be looking out primarily for a larger salary. The minister who is believed to be doing this is soon discounted by his fellow ministers and is fatally discredited among the churches.

Jesus of Nazareth, it has been finely said, was the world's perfect gentleman. They who are called to be His followers and ministers of His grace, are expected to be like their Master. Many fail; humility compels us all to confess that we fall below our ideal. But my experience and observation teach me that ministers as a class maintain high ideals and live up to a fine code of professional ethics.

Ethics in the Public Service

Proposals for a Public Service Code

By WILLIAM C. BEYER

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AS our already extensive public service continues to grow and to absorb a larger and larger proportion of the workers of the country, we shall become increasingly concerned, not

only with the conditions under which public servants are employed, but also with the ethics and ideals that govern their conduct. A public service, the members of which are not guided by

considerations of public welfare, is bound to fall short of fulfilling its mission as an instrument of social usefulness.

In many professional groups it has long been the practice to formulate in a code the rules of conduct that individual members are expected to observe in their relations with each other, with their clients, and with the public. These rules do not always have the formal sanction of the group, but may simply be understood and accepted as a matter of professional custom. The clergy, for example, have certain unwritten rules that every clergyman is expected to obey. A number of professional groups, however, notably the physicians, the lawyers, the architects and the engineers, have reduced these rules to formal codes.

So far as the writer is informed, public servants, as such, have never developed a written code of ethics. There are in the public service representatives from all the professions having codes of this character, and these workers are quite as much subject to their canons of professional ethics while in government employ as they would be in private life; but there is no written code applying generally to all public servants.

Most persons would probably agree at once that a code of ethics for our public service would be highly desirable. It is pertinent therefore to consider briefly the conditions essential to the development of such a code, its possible general character and content, and a few specific canons that might be included in the code.

CONDITIONS ESSENTIAL TO DEVELOPMENT OF CODE

In considering the conditions essential to the development of a code of ethics for public servants, one is struck immediately with the way in which the

public service differs fundamentally in make-up from those groups of workers that already have formal rules of conduct. It is not composed as are the latter of persons belonging to a single vocation, but comprises within itself practically all vocations. Its members are not versed in a common technique as are those of the professional organizations to which codes of ethics are still largely confined. No common educational background is required for the public service as it is for the practice of law or medicine, or for engaging in architectural or engineering work. Public servants do not even have the common tie of being all hand workers or all brain workers. They are, in short, a heterogeneous aggregation, whereas those groups that have ethical codes are homogeneous in character.

This fundamental difference is pointed out, not because it is believed to interpose an insuperable barrier to the development of a code of ethics for the public service, but because it doubtless will make the development of such a code more difficult than would be the case if the public service were more like professional organizations.

There are, however, certain prerequisites to the development of a public service code of ethics. In the first place, entrance to, and promotion in, the service must be based upon definite qualifications for the work to be performed. So long as partisan or other irrelevant considerations continue to be important factors in determining the personnel of the public service, it is hardly conceivable that a code of ethics will be brought into being. This does not mean that all progress toward the desired goal must wait until the merit system has been established in every nook and corner of governmental jurisdiction, but it does mean that no branch of the public service in which the merit system has not become firmly

rooted is likely to make any contribution to the cause of higher standards of conduct. It is perfectly possible that in our federal civil service and in the civil service of some of our larger cities where the spoils system has been most successfully curbed, we shall see attempts at formulating codes of ethics long before other branches of the public service have even been brought under legal civil service provisions. In every movement we have had our pioneers, and so we probably shall have in this.

In the second place, the workers must be organized. A loose aggregation of individuals without any machinery for group action is in no position to give formal expression to its common sentiments and ideals. All of the vocational groups that have reached the code-framing stage, or have formally adopted codes of ethics, have done so only after they had become organized in local and in larger units. To this process of evolution the public service can be no exception. Here again, however, it is not necessary to assume that the second stage of development will not begin until the first has been carried to completion. Even though our public service is as yet far from being fully organized and may never reach the one hundred per cent goal, still a code of ethics for public servants may not be altogether a remote possibility. An organization such as the National Federation of Federal Employees may well take the lead in proposing standards of conduct that ultimately will come to be accepted by government workers throughout the country.

In addition to these two prerequisites, there are several conditions that are important, though not indispensable, to the development of a code of ethics for public servants. One of these is a reasonable degree of freedom from economic want. So long as pub-

lic servants are grossly underpaid, they are likely to bend most of their organized efforts toward improving their standards of compensation and to give relatively little thought to their moral obligations to the community. In the past, our civil service unions have devoted themselves largely to the promotion of legislation designed to better their working conditions and to increase their inadequate pay. They have, it is true, always stood staunchly by the merit system. But with the exception of their occasional consideration of the question as to whether government employes should avail themselves of the strike as a weapon in enforcing their demands, these organizations appear to have concerned themselves but little with matters of public service ethics. The reason for this doubtless lies in the greater urgency of the bread and butter problem.

Another condition of considerable importance is the coöperation of our educational institutions in raising standards of performance and conduct in the public service. Our high schools and our colleges and universities are the great "ideal factories" of the country and have done much to elevate the moral tone of the business and professional world. This has been accomplished largely by means of special courses of training for the more important vocations. It is true that the public service is not a distinctive vocation such as law, medicine, engineering and agriculture; but is rather a field of employment, analogous to that of business and industry, in which all the vocations are represented. Nevertheless, the tasks and the viewpoint required in the public service are sufficiently different from those of private industry to warrant our institutions of learning in giving greater prominence than they now do to the peculiar needs in the former field. What is necessary is not

so much the addition of new departments of instruction, as the introduction of new courses of study emphasizing those features which are of especial importance to workers in government employ. These courses could be utilized, not only in preparing young men and women more specifically for the tasks of the public service, but also for inculcating in them those standards and ideals of conduct by which all public servants should be guided.

It is probably fair to say that all the foregoing conditions essential to or helpful in developing a code of ethics for the public service, are within the realm of possibility. The merit system is slowly but surely establishing appropriate standards of qualifications for entering the service and securing promotion in it. The process of organization, too, is well under way, especially among the employes of the federal government and of our larger cities. No doubt the pressure of economic want will be gradually alleviated, largely through the efforts of the organized civil servants themselves in directing public attention to their present inadequate compensation. With the growing importance of government activity in the life of the nation, it is to be expected also that our educational institutions will coöperate to an increasing extent in improving the equipment and in stimulating the moral sense of the men and women in government employ.

GENERAL CHARACTER AND CONTENTS

We may now make a few brief observations with regard to the general character and contents of a public service code. It is in order to preface these observations by raising the question as to whether the ethical standards of public servants will ever be expressed in a single formal document, or whether the various groups of govern-

ment employes are not more apt to adopt separate codes of their own. Probably the latter is more likely to be the case than the former. That there would be any appreciable difference in the practical result is not at all certain. Our present concern, however, is not so much to anticipate the actual trend of evolution as it is to clarify our thinking with regard to the standards of conduct that should be observed in common by all members of the public service. For this task it is a convenience to proceed on the basis of a single code for all, even though events may follow a different line of development.

Let us assume, then, a single code. In the first place, such a code would supplement, but would not include, those canons of ethics which are already in the codes of the various professional organizations represented in the public service and which relate to matters peculiar to those professions. It could not attempt to embody all the rules which may be found necessary or desirable in each and every one of the numerous vocational groups that make up the public service. The public service code would have to confine itself to those more general canons of ethics that apply equally to all the groups. By so doing it might appropriate a considerable number of rules that are in existing professional codes, but to this there could be no objection so long as those rules were of general applicability.

In the second place, a public service code would probably follow the example of other similar codes in laying down rules to govern the relationships between fellow workers. This seems both desirable and important. In professional organizations, canons of this character have been adopted, in part at least, to protect individual members from unfair competition. Perhaps there is less need in the public service

for this type of protection, but there is great need for harmony and coöperation. Friction and lack of teamwork among government workers not only make for unpleasant conditions within the service but also lower the efficiency and tend to defeat the purposes of government. It is therefore quite as essential to have definite standards of conduct to govern the relationships between fellow workers in the public service as it is in professional organizations, though for somewhat different reasons.

Finally, such a code ought to state clearly the obligations that every government worker owes to the public. It is the great distinction of all governmental activity as contrasted with private industry that the motive in the former is service to the community, whereas the motive in the latter usually is profit to the individual owners. Public servants, therefore, have the high privilege of contributing directly to the welfare of their fellow men instead of merely as an incident to making profits for the private owners of industry. With this privilege goes also a greater responsibility than rests upon less favored workers, to place the interests of the community above all other interests. In order that public servants may be constantly reminded of this fact and may govern their conduct accordingly, it is important that their obligations to the public be set forth in their code of ethics.

A FEW PROPOSED CANONS FOR A PUBLIC SERVICE CODE

This brings us to the consideration of specific canons for a public service code. It would be as futile as it would be presumptuous to undertake a complete enumeration of the many items that such a code ought to contain, and it is not our purpose to do so. At most, we shall endeavor to set down a few of

the more obvious essentials of the ethics of public service, in the hope that they may afford a starting point for a more comprehensive effort. With this thought in mind, the following canons are suggested for the guidance of the public servant:

1. *He should at all times be courteous, especially in his dealings with citizens who come to him with complaints or for information, assistance or advice.*

At first thought this suggested canon may seem superfluous, for it would appear that courtesy might be taken for granted. Unfortunately, however, it is not always present in public offices.

2. *He should give the best that is in him to the work he is called upon to perform.*

In reference to this canon, the writer wishes to disclaim any share in the popular view, still too largely held, that all public employes are loafers. Some of the most conscientious workers that may be found anywhere are in governmental services, and the average civil servant is probably no less industrious than the average employe of any of our large private corporations. Nevertheless, there are some public place holders, especially in branches of the service not yet touched by the merit system, who are greatly in need of the admonition given above.

3. *He should deal fairly with all citizens, and should not accord to some more favorable treatment than to others.*

A public servant should never forget that he is the servant of *all* of the public, not of any fractional part of it. He should therefore treat all citizens alike, regardless of their political affiliation, religious faith, racial extraction, or material wealth.

4. *He should not limit his independence of action by accepting gratuities or favors from private citizens who have business dealings with the government.*

Comment on this is hardly necessary. There are, unfortunately, many indi-

viduals who have no scruples about the methods they employ in winning concessions from governmental agencies, and all too often, through the frailties of human nature, public servants fall victims to the subtle snares of these self-seeking members of the community.

5. *He should never be a party to any transaction which would require him, as a representative of a department of government, to pass upon the quality or price of goods or services which he, in some other capacity, is offering for sale to that department.*

The impropriety of acting as buyer and vendor in the same transaction is obvious.

6. *If a public servant is asked by his superior to do something which would jeopardize the vital interests of the public, he should first endeavor to dissuade his superior from pressing the request, and if this method proves unsuccessful he should tender his resignation, stating publicly his reason for doing so.*

Many a public servant has had this problem to face. The solution suggested above is drastic, but there appears to be no other proper way out. To make the problem even more difficult, it usually happens that the issue is beclouded by other considerations also affecting the public welfare. For example, a faithful public servant may have continuous pressure brought to bear upon him to relax somewhat the enforcement of a law which interferes with the interests of the political faction with which his superior is affiliated. If this public servant resigns, he may simply clear the way for the appointment of another person who would make no effort at all to enforce the law in question and thus leave the public welfare less protected than ever. Might it not be better, in a case of this

kind, to make some concessions to the wishes of the superior and to stay by the ship lest even greater injury be done? At times, yes; at other times, no. Each case must be decided on its own merits. However, unless the issue is beclouded in the manner just indicated, no public servant ought to shrink from the drastic course proposed in the foregoing canon.

7. *A public servant who is charged with the enforcement of a law with which he is not in sympathy should either subordinate his personal views or resign from the service.*

That a law may be poorly adapted to the needs of the community, or may even be positively injurious to society, is quite conceivable. A public servant, however, ought not to make himself the judge of its efficacy.

8. *He should work in full coöperation with other public servants in furthering the ends of government and in promoting public welfare.*

A public servant cannot be a law unto himself in the manner in which he does his work. If he is not animated with the spirit of coöperation he will frequently retard rather than advance the cause of social welfare.

9. *He should be true to his obligations as a custodian of public property and regard its misuse or waste as as serious an offense as the direct misuse or waste of money from the public treasury.*

Public servants should be just as conscientious in the use and care of the property belonging to the people as they would be were this property their own. They should bear in mind, moreover, that the waste of public resources results in a weakening of the services that governments are established to render to the men, women and children of the community.

The Professional Organization of Social Work

By MARY VAN KLEECK

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AND

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OF all the professions social work is the only one in which in its early beginnings the practitioner has been commissioned by one group to perform services for another group. Social service, in its earlier forms of charity, starts with the impulse to serve, which is a common possession. Gradually out of service to the individual emerges service to the community with the necessity not only for one group to serve another but for all to unite in promoting the common weal.

Thus, paradoxically, the effectiveness of social work as a profession in the public interest, depends upon making its motives, its aims, its knowledge and even its "technique," a common possession, seemingly abandoning the usually accepted basis of a profession as the organization of a group set apart through exclusive ability to perform certain tasks. In contrast with this exclusive status the invasion of all professions by the modern social ideal tends to the same effort to share knowledge with the community. The relation of the medical profession to public health education is an illustration. A profession, on the ethical plane, tends to become the use of knowledge and skill for the common good, and since service in the common good is not the function of any single group, both the knowledge and the skill of a profession may be increasingly shared with others who are working in the common interest.

The organization of a profession thus becomes an effort not to maintain

a status for the members but to enable the group, through its relationships within itself, to function more effectively than if its members had no such opportunity for united effort. Organization is needed, again, to make possible the relationships between different professions in the interest not of professional status or selfish advantage, but rather for the more effective functioning of each group in relation to every other group. Each group in its field must be the pioneer to push forward the frontiers of knowledge in order that the knowledge may ultimately become the common possession. At any one time, therefore, each group in its own specialty is necessarily in advance of the community, both in knowledge and in skill, but the share of the community in the ultimate objective of any profession must be constantly in mind.

These generalizations are advanced merely as a basis for defining what seems to us the stage of development of the profession of social work. Social workers have lacked, perhaps fortunately, the type of organization which is designed to maintain a privileged status for its members. The tasks of social workers have in their very essence depended upon the altruistic spirit of the community. The need for professional organization of social workers arises from the recognition that a group can function more effectively than a mere collection of individuals. But the dependence of the group upon enlightened citizen-

ship is increasingly recognized as the guiding principle of the professional organization of social workers.

HISTORICAL DEVELOPMENT OF SOCIAL WORK

In contrast to the historical development of other professional groups, which began with the association together of practitioners and which only in recent years have undertaken the education of the community to co-operate in the work rendered by such professional groups, social work as a profession has grown out of a consideration of the problems involved by a broad body representative not merely of persons professionally engaged in such work but also of public spirited citizens. This body is the National Conference of Social Work, which held its first meeting in 1874 in connection with the American Social Science Association. Starting as the National Conference of Charities and Correction it grew in scope and numbers and, under its present name adopted in 1917, it is approaching its fiftieth year.

The first National Conference included representatives of boards of public charities from nine states and the discussion covered state laws and administration with reference to insanity, criminality and pauperism. During the first decades discussion centered upon the care of "dependents, defectives and delinquents" but even in the second year some attention was given to such problems as immigration. In the second year, also, it was found that persons not officially connected with public charities and correctional boards were desirous of attending and were competent to contribute papers.

The discussion of the care of dependents, defectives and delinquents was soon supplemented with an emphasis upon prevention, and this word,

with such other declarations as "the charity of today is the justice of tomorrow," became the keynote of the Conference. In the last two decades the widened range of topics has brought into prominence a new and constructive note. The discussion of leisure time activities, such as playgrounds and recreation leadership, has been approached not merely from the standpoint of preventing delinquency and ill health but also from the standpoint of developing a fuller and richer life and creating a spirit of tolerance and coöperative work. Similarly, the discussion of industry has not been content with papers on the care of the victims of industrial accidents, for example, and not even with preventive measures, but has taken up such fundamentally constructive lines as occupation in relation to standards of living, emphasizing the vital concern of the whole community therein.

From a handful of people dealing with problems in comparatively narrow fields of social effort, the Conference has thus grown so that every state is represented in an attendance numbering several thousand, and the fields of effort include family welfare, child welfare, hospital social work, occupational therapy, probation, protective, parole and prison work, psychiatric social work, school social work, visiting housekeeping, vocational guidance, adjustment of immigrants, coördination of social agencies, community centers, boys' and girls' clubs, playground and recreation, social settlements, civic work, housing, social legislation, public health nursing, social hygiene, mental hygiene, tuberculosis prevention, child health, industrial hygiene, community health activities, social research, social statistics, industrial investigation and public and private employment work.

RECOGNITION OF THE NEED FOR PROFESSIONAL TRAINING

With this growth in the consideration of the problems of *social work* it was not until very recently that attention was directed to the qualifications of the *social workers*. For decades the Conference was content with its often expressed dictum that "philanthropic effort needs not only a kind heart but some intelligence." Little thought was given to defining the real substance of this intelligence. Even after much progress had been made in analyzing scientific methods of handling the various types of work, there was a persistence of the conception of the worker as merely a benevolent person "doing good to the poor."

In 1897, however, a paper was read by Miss Mary E. Richmond on "The Need of a Training School in Applied Philanthropy." In 1898 the New York Charity Organization Society established a summer training class, directed by Dr. Edward T. Devine, which has now grown into the New York School of Social Work, the leading training school in the country, under the direction, at present, of Porter R. Lee. In 1905 Dr. Graham Taylor, of Chicago Commons Social Settlement, established the Chicago Institute of Social Science, developing it into the Chicago School of Civics and Philanthropy, which has recently been succeeded by the Graduate School of Social Service Administration in the University of Chicago. At about the same time schools were established in Boston and Philadelphia. An essential characteristic of all these schools is their close relationship to the work of social agencies and organizations as providing opportunities for the student to engage in supervised field work.

In 1919, when an Association of Training Schools for Professional Social

Work was formed, there were admitted to membership nine universities and colleges and five independent institutions as offering professional courses requiring the full time of students for one year or more. The membership of this Association now numbers twenty-two.

Recognition of the importance of professionally trained practitioners in social work was impressively given at the National Conference of Social Work in 1915 by Professor Felix Frankfurter, of Harvard University Law School, who said:

I submit that what has been found necessary for adequate training for those social activities which we call the profession of law and medicine, is needed for the very definite, if undefined, profession we call social work. I can not believe that the preliminary training of a lawyer, most of his life spent in the adjustment of controversies between individuals, requires less of a background, less of an understanding of what has gone before in life, less of a rigorous critical discipline, than is needed by those of you who go out to pass judgment on the social conditions of whole communities, by those of you who administer laws like the minimum-wage laws, and the other social legislation now administered . . . by social workers. Secondly, I can not believe that a training fit to discipline people who shall guide and deal with the social forces of the day, can be done in less time than the time found necessary for the training of lawyers. Thirdly, I can not believe that the experience of medicine and law as to the quality of teachers to train men in those professions, applies less in regard to teachers of social work.

ORGANIZATION OF PRACTITIONERS

Organization of the practitioners has developed in three ways: In local groups, in groups of workers in specialized fields, and more recently in an all-inclusive association. Locally, social workers' clubs have been formed

in many cities. These have for the most part been loosely organized, including not only professional workers but interested laymen for the discussion of social work problems. In recent years, however, an increasing number of these clubs have shown a more definite professional consciousness and have established standards of admittance limiting their membership to professional workers. In specialized fields such organizations have grown up as the American Association of Hospital Social Workers. The National Federation of Settlements, while in some measure attended by members of boards of trustees and volunteer workers, is mainly composed of those who are professionally engaged in settlement work. The National Association of Visiting Teachers and Home and School Visitors, organized in 1919, has now one hundred and fifty members, representing twenty-eight cities, half of whom are professionally engaged in this field of work. The American Association for Organizing Family Social Work unites the family case workers throughout the country in coöperation with the boards of directors of family welfare and charity organization societies to define and promote standards of work in this field. To mention but one more example of the organization of social workers in a specialized field, the National Conference of Tuberculosis Secretaries brings together each year several hundred workers who are serving as secretaries or managing directors of tuberculosis prevention societies.

It is significant that the American Association of Social Workers, which is developing as the all-inclusive body of social work practitioners, is the outgrowth of an effort to study the qualifications of individual workers for specific positions and to place them.

From the experience of the National Social Workers' Exchange as a co-operative undertaking of social workers to provide an employment service, there came a growing appreciation of the need for more definite study of standards of qualifications and vocational analysis of the various types of work. Committees of the members of the Exchange actively engaged in such studies, and this effort rapidly developed a consciousness of the professional implications which were involved. In 1921 the annual meeting of the Exchange, attended by more than 1,000 members, voted to expand the organization into the American Association of Social Workers.

With a membership of two thousand and rapidly growing, this Association has earnestly undertaken the consideration of its own professional standards for admittance to membership. After careful discussion throughout the year by local groups in more than forty cities and by the national Council of the Association representing all sections of the country and all fields of specialization, the next annual meeting of the members in June, 1922, will have these standards before it for adoption.

DEVELOPMENT OF PROFESSIONAL REQUIREMENTS

Professional requirements are being worked out not merely on the basis of standards for admittance to this all-inclusive body, but also through careful consideration by committees of leaders in the various specialized fields. For example, a committee of the most experienced secretaries of tuberculosis prevention societies is at work on an analysis of the technique in this field and the qualifications in training and personality which are necessary. It is expected that as similar committees in each of the

specialized fields of social work conduct similar analysis, in coöperation with the research activities of the Association, definite conceptions and standards of what constitutes a well-equipped and efficient practitioner in each of these fields will be evolved. The combined result of such work through a course of years should bring about a more definite status for professional social workers.

The vocational bureau of the Association, continuing its service in providing vocational information and advice and placement of workers, affords through the body of data gained from its study of individual cases a basis for analysis and research. This has already been recognized by Professor James H. Tufts of the University of Chicago through his use of such data in his study of training for social work, made for the Russell Sage Foundation.

In the development of standards of professional training the Association as representing the body of practitioners is coöperating with the Association of Training Schools. The latter, at its meeting in Pittsburgh in December, 1921, invited the Association of Social Workers to appoint a committee of practitioners for this coöperation.

The first result of the Association's research is a pamphlet, *The Profession of Social Work*, which presents, concisely, vocational information covering all the fields of social work. This is proving of great value in colleges and universities, in schools of social work, in organizations choosing their staffs and in response to many requests for information about fields and opportunities. More than four thousand social workers are registered with the Association's vocational bureau, each of them providing information concerning training and experience. More than three thousand persons additionally have come to the bureau for

information about training and opportunity. As the Association's research further develops, information will be made available to practitioners, executives, boards of trustees and universities. A concrete instance of the need for such vocational information is to be seen in a recent request from the California State Civil Service Commission which stated that a number of positions, all in social work, were to be added to the State Civil Service. Information and advice were sought as to the salaries that ought to be paid and the qualifications which the workers should have.

The growth of social work as a profession has been greatly facilitated by periodical publications in the field. Foremost among these is *The Survey*. The uniting of *Charities* and *The Commons* in 1904, and the absorption of six other smaller periodicals, developed one authoritative journal serving both as a medium for the interchange of social information and experience and as a means of acquainting the general public with the facts concerning social conditions and the aims and methods of those at work for improvement. Many of the specialized fields have established their own publications, as for example *The Playground*, serving the play and recreation movement; *The Family*, serving the family case workers; the *Journal of the Outdoor Life*, serving the workers in tuberculosis prevention and also helping to educate the community along this line, and *Hospital Social Service*, serving those interested in that field.

Mention should also be made of the influence which the development of the profession of social work in America is having throughout the world. Visitors from European countries frequently show how much they are impressed by the organization of social

work in this country. And it is significant that the Czecho-Slovak Legation in America has no military attaché but is the first to have a social service attaché whose business it is to observe and investigate social effort in America and send back information to his home government.

DEVELOPING CONSCIOUS TECHNIQUE

At the National Conference of Charities and Correction (now called the National Conference of Social Work), held in Baltimore in 1915, Abraham Flexner discussed the question, "Is Social Work a Profession?" He developed six criteria for professions:

- (1) They involve essentially intellectual operations with large individual responsibility.
- (2) They derive their raw material from science and learning.
- (3) This material they work up to a practical and definite end.
- (4) They possess an educationally communicable technique.
- (5) They tend to self-organization.
- (6) They are becoming increasingly altruistic in motivation.

These criteria he applied to various occupations. He ruled out plumbing as acting on the instrumental rather than on the intellectual level, and as having shown "as yet no convincing evidence that the spirit of plumbing is becoming socialized." Banking he disqualified as being as yet far from "the application of economic science," with its practices still too largely empirical, and with the motive of financial profit too strongly stressed. Medicine, law, engineering, literature, painting and music he regarded as "unmistakable professions."

Social work he excepted as a vocation requiring intellectual activities but lacking independent responsibility, because he held that having localized

a problem "the social worker takes hold of a case, that of a disintegrating family, a wrecked individual, or an unsocialized industry," but is driven usually to invoke another agency, the doctor for illness, the school for ignorance, the legislator for poverty, so that "the responsibility for specific action thus rests upon the power he has invoked." Social work, in brief, is a mediating activity, without the definite and specific ends of medicine or law, but appearing rather "as an aspect of work in many fields." In line with this thought he concluded that "well-informed, well-balanced, tactful, judicious, sympathetic, resourceful people are needed, rather than any definite kind or kinds of technical skill."

This speech of Dr. Flexner's has been a useful challenge to social workers. Many of them are prepared to agree that social work gives evidence of having arisen out of altruistic motives rather than technical qualifications. They are quite ready to grant that the effectiveness of social work derives much of its power from close contact with other professions and from the ability to persuade members of other professions to bring their skill to bear upon the groups who are living in the community at an economic or social disadvantage.

CONTACT WITH THE OTHER PROFESSIONS

Close contact with the other professions is one of the inspirations of social work, but the contact consists not merely in the social worker's calling in the doctor or the engineer. Experience seems also to show that the more socialized the other professions become, the more they turn to social workers for light. When doctors become interested in public health not only are they the allies of social

workers in recognizing that the causes of poverty are also the causes of ill health, but they seek, also, to appropriate the knowledge and experience of social workers in dealing with these causes of poverty as problems for the individual or for the community. Likewise, nurses who aim to work in the field of public health rather than in private work seek instruction in schools which have been built up out of the experience of social workers.

More recently, the management engineer and the social worker have found coöperation necessary. The management engineer has discovered that the success of industrial management is largely conditioned by skill in human relations, and that the efficiency and coöperative attitude of a labor force is directly affected by the organization of life in the community, while, in turn, industrial conditions affect the community life. Naturally, when the management engineer arrives at that stage of thinking he finds that the social worker, approaching from a different direction has also arrived at the place where recognition of the relations of these two groups, the engineer and the social worker, become highly desirable for the success of each group. Industry is being invaded by social workers, who are bringing their experience to bear upon problems of personnel and research as they affect human relations. The Taylor Society has proved its recognition of these facts by admitting to its membership the so-called "social scientist," and recognizing in the experience of social workers in industry the necessary qualification for admission to a professional group concerned with problems of management.

The invasion of the schools by social workers is also proceeding rapidly. The visiting teacher finds

the need to build upon the experience of the social case worker. A recent report of the Vocational Guidance Association on the technique of training for that occupation reveals common ground with the experience of social workers. Indeed, the report was prepared by a committee whose secretary is also one of the secretaries of the American Association of Social Workers.

Similarly, the ministry is seeking to share in a type of experience which may be called, for want of a better name, the technique of the social worker.

Only as social workers are prepared consciously to formulate their experience as a guide for the practice of others, to make it available for these other groups, can they lay claim to the possession of technique. Their claim to permanence as a group, at least under present conditions, rests upon their ability to push forward to more effective experience and a clearer formulation of it, than at any one moment is shared with other groups. Toward what frontiers of skill and knowledge are social workers now pressing?

WHAT IS SOCIAL CASE WORK?

Under this title Mary E. Richmond, Director of the Charity Organization Department of the Russell Sage Foundation, has just published a book which she describes as "an introductory description." Incidentally, it is significant that it follows *The Good Neighbor*, in which Miss Richmond stresses the common possession of neighborliness, and *Social Diagnosis*, in which she subjects the experience of case workers to the same sort of searching analysis that physicians in medical schools are subjecting the recorded cases of medical practitioners.

"There was real teaching in the

world long before there was a science or art of teaching," writes Miss Richmond in answering the question, What Is Social Case Work? "There was social case work long before social workers began, not so many years ago, to formulate a few of its principles and methods. Almost as soon as human beings discovered that their relations to one another had ceased to be primitive and simple, they must have found among their fellows a few who had a special gift for smoothing out the tangles in such relations; they must have sought, however informally, the aid of these 'straighteners,' as Samuel Butler calls them. Some teachers have had this skill, occasionally ministers of religion have had it, and secular judges, and physicians; though at no time has it been the exclusive possession of these four professions or of any one of them."

An objection to regarding skill in social case work as the technical possession of a few is voiced by Miss Richmond.

Even in our own day, the skill of the social case worker who is able to effect better adjustments between the individual and his environment seems . . . to many . . . neighborliness and nothing more. There is a half truth in this neighborliness theory, for the good case worker must be both born and made, but its element of error is the failure to recognize how much is being done in social work to develop a native gift through training and specialized experience.

Miss Richmond's definition of social case work implies in itself a task requiring as much training and as much content as that of the teacher: "Social case work consists of those processes which develop personality through adjustments consciously effected, individual by individual, between men and their social environment."

How far actual results were achieved

in social agencies by the skill which any intelligent person "without previous training but with tact and good will" might possess was a question which Miss Richmond sought to answer by a careful analysis of typical cases. She listed each act and policy of each case worker responsible for the treatment described. She secured six long lists of items which fell under the general heads of "insights" and "acts." She divided these again and secured the following four divisions:

Insight into individuality and personal characteristics

Insight into the resources, dangers, and influence of the social environment

Direct action of mind upon mind

Indirect action through the social environment

Her conclusion was this:

As I examined the items of each list of particulars carefully, it seemed to me that each item might possibly have been thought of and carried out by a non-specialist. But trained skill was shown in the *combination* of these itemized acts, which no untrained person, however intelligent, would have achieved.

It is impossible within the limits of this article to analyze more fully the claim of methods of interviewing and all of the other acts of diagnosis and adjustment to be regarded as the technique of case work. It is only possible here to point out that a department of the Russell Sage Foundation is devoted wholly to research, teaching and publication in the field of family welfare, in which social case work is the instrument. Moreover, in the American Association for Organizing Family Social Work, which includes in its membership family welfare agencies throughout the country, emphasis is consistently placed upon a type of service which recognizes that one learns by experience and by

knowledge how best to achieve a desired result, and that this experience can be recorded, analyzed and passed on to others. This kind of case work is applicable not only in the work of family welfare agencies, but in all the forms of social work with individuals, such as the activities of the probation officer, the visiting school teacher and the vocational guide, and even the personnel director in industry who is charged with responsibility for adjusting individuals to one another and to their environment. By this process of training the native ability, the family welfare organizations have emerged from the mere providing of food and shelter for the homeless to the giving of service analogous in the social field to that of the doctor for physical ills.

IS THERE A TECHNIQUE FOR GROUP WORKERS?

The social settlement movement differed from the older relief organizations or even from the present more highly developed family welfare agencies in its emphasis upon activities carried on for and by whole groups who constituted the neighbors of the settlement workers. Boys' and girls' clubs and debating societies in a settlement were a recognition of the value of the group for which more recent developments in social psychology are giving a scientific basis. It seems fair to say that settlement workers in general have achieved less by way of formulation of experience in methods of group organization than have the case workers. The settlement desired to emphasize what might be called "mere" neighborliness and to eliminate any tendency to regard the residents who made up its household as more expert in neighborliness than any of their neighbors.

Out of the great need, however, for

new recognition of the value of the group in a limited neighborhood may develop the clearer formulation of experience.

REFORM MOVEMENTS

In contrast with work for individuals, either separately considered or in groups, are what might be called the mass movements for reform. Through them efforts are made to modify environment, rather than to modify or adjust individuals in relation to their environment. Social legislation is one manifestation of the mass movement for reform.

Perhaps the best illustration of a consciously developed method of accomplishing reforms is the social survey. It was a committee organized by the former *Charities and the Commons*—the magazine of social work now called the *Survey*—which initiated and directed the now well-known Pittsburgh survey. The term "survey," itself, was taken over from the engineering profession by this group of social surveyors. Since that time the importance of the survey as the diagnosis of the community, directed toward the improvement of social and living conditions for all its people, has been demonstrated not only by the number of surveys undertaken, but also by the recognition that here was a tool requiring a combination of skill in its handling. How to bring groups together, to act together for a common object, how to discover and record facts with such insight as to develop a sound program of action, and how to communicate all this knowledge and the motive power for putting it into effect to the entire community, may be seen to constitute the technical problem of making surveys.

RESEARCH

The last of the four big divisions of social work, conceived functionally, is

research, if work with individuals, work with groups, and mass movements for reform be regarded as the other three. How far research which deals with social material can be accepted as ranking with pure science is a question not yet fully answered. Some years ago Mrs. Sidney Webb, in an illuminating article published in *London Sociological Papers*, 1906, discussed the claims of social research to be regarded as a science. She pointed out that science uses three methods of procedure—observation, the analysis of documents and experiment. Of these, social research may use observation and documentary material. But in experimentation the individual investigator in social science is seriously limited. He cannot, for instance, easily organize a trade union merely in order to study it and test its results, as a chemist can combine two substances and watch what happens. Nevertheless, the social scientist may bring to bear the power of observation upon the activities of the individual, a group, or a community, so as to record what might be regarded as an unconscious, involuntary experiment.

The inadequacy, from a scientific point of view, of many of the experiments which a community undertakes is the failure to study their results and the difficulty of isolating factors so as to measure their relative importance.

If the method of experiment has its limitations for the social scientist he may find some compensation in the fact that he has a method of procedure exclusively his own, as compared with the laboratory scientist, namely, the interview. The interview may be merely for the purpose of securing information from someone who possesses it, as the historian might find in the oldest inhabitant a source of facts in

the history of a town. Generally, however, the individual has a larger interest than this for the social scientist, for he finds in him not only a source of information, but a subject for study whose attitude of mind, experiences and emotions are all part of the material of social discovery.

As in social research it is possible to recognize these definite methods of procedure, so it is also possible to develop the best way of approaching the task, to study forms of record keeping, and to acquire consciously the methods of interviewing which will yield the most accurate results, as contrasted with the clumsy efforts which may make it impossible to disentangle the true from the false. Here, as in all science, the method must evolve out of recorded experience, and the output of social research in the past few years seems to warrant the hope that it will give the basis for a more consciously developed knowledge of how to make discoveries in the field of social relations.

PROFESSIONAL ETHICS FOR SOCIAL WORKERS

While thus far no definite and recognized code of professional ethics has been agreed upon by social workers, their devotion to ideals of service rather than to pecuniary reward, which has been uppermost since the beginning, is characteristic of a high ethical plane in their attitude toward their work. And the questions of ethics with respect to many problems which arise in daily practice are a subject of earnest thought and discussion in many groups. Out of this group thought and discussion a formulation of a code may be expected. The following tentative statements are suggestive of certain principles which would enter into such a code of professional ethics for social workers:

I

Practical activity and methods which can be tested by results form the real content of social work. Its moving force is the will of the people to subordinate the selfish interests of any individual or group to the social interests of the better community. If these aims are to be accomplished, the social worker must find his satisfaction primarily in achievements of the community, the group or the individual whom he serves. This aim will underlie his code of ethics in his relation to the community, to his clients and to his fellow-workers.

II

His zeal for the welfare of the community must be great enough to impel him to seek an exacting standard for testing his own efficiency. He will be eager to learn of the new discoveries of others, and alert to increase his knowledge of the social sciences whose application to the problems of social work will increase its effectiveness.

III

In his relations with other social workers, he will have a professional interest in the accomplishment of the group, will feel, therefore, a concern in the training and achievements of his fellow-workers, and will be eager to contribute his own experience to the knowledge of the group. He will be especially interested in the development of younger workers, and in such conditions of work as will increase the capacity of every member of the profession and secure for each the opportunities which will best utilize and develop his powers.

IV

As the effort to subordinate the selfish interests of any group to the welfare of the community will necessarily involve the social worker in controversial issues, he must make

scientific devotion to truth an essential in his work. The quality of his work and his independence of judgment and action must never be subordinated to the consideration of financial support.

V

He must be free to act and to express his views as a citizen. His guiding principle must be, however, that he has chosen to serve the community through social work and that, therefore, his best service as a citizen will be to conform to the standards of social work, furthering the scientific study of problems and the development of programs of action based on experience and facts. He will also be mindful of the importance of educating the citizenship of the community to meet its own social responsibilities.

To those who challenge the right of social work to be called a profession, the answer of many social workers is that to them the question is to a certain extent academic and less important than the effectiveness of their service. They have, however, recognized the importance of studying methods, attracting able persons to their ranks, working out methods of training and, in brief, so improving the quality of the social workers as to make social work itself more effective. The answer to the question, "Is social work a profession?" is to be found not in its present content as it is most commonly understood, but rather in its activities; not in the status of social workers as a group apart, but in the process of functioning as a group with conscious recognition of its relations with other professions. After all, the test of public service in every profession ultimately rests in its power to enlighten all the citizens of the community.

Foreword: Ethics in Journalism

By E. J. MEHREN

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The teachers of the people must be actuated by high principles; otherwise society will suffer. Newspapers, magazines and business papers form a continuation school which affects throughout life the graduates of every other educational institution, be it common school or university. As is the press, so will be society.

Observance by journalists, then, of the highest ethical standards is an imperative social necessity. There have always been sound rules of journalistic conduct, unformulated, seldom written, that have guided the best of our newspapers and magazines. The wide confidence which these journals enjoy is evidence of the extent to which they have lived up to high principles. On the other hand, there have been serious lapses.

It is with the purpose of cleaning up the sore spots, of raising the good to the level of the best, that we find in different parts of the country efforts to formulate the journalistic conscience into codes. Some of these efforts are set forth in the articles by Dean Allen, Mr. Norris and Mr. Hill.

Primarily, a code is a means of internal professional discipline for each group. We must be our own judges. We must shame the violators and help reform habitually offending papers.

But a code has a secondary value. It enables a profession to justify itself to the

public. House-cleaning cannot go on without some evidence of it coming to public knowledge. Then will ensue confidence; esteem will replace the distrust that may now exist.

Codes alone—mere expressions of sound standards of practice—will do some good, but to be of full value they must be accompanied by machinery for their enforcement and punishment for their violation. The medical profession enforces its codes through the county medical societies; the legal profession, through the state bar associations. There is need in the journalistic world of an organization or organizations through which the social responsibility of journalists can find expression. Here and there are state associations of newspaper men and local clubs. The business paper editors have their organizations. Is the time not ripe for an Institute of Journalists which will carry the banner of high purpose for the whole profession and stimulate the organization of functioning subsidiary or affiliated bodies in every part of the country?

With the heavy responsibility resting on journalists, a responsibility of supplying mental food and guidance to millions, a responsibility of teaching the entire people, can journalists afford to do less than bind the whole craft together for the erection and maintenance of high standards?

The Social Value of a Code of Ethics for Journalists

By ERIC W. ALLEN

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RECENT criticisms of the American newspaper, sweeping and condemnatory, of which Mr. Upton Sinclair's *Brass Check* may be taken as the extremest example, ignore so many factors in the social problem of the press, in its past, in its present, and in its future, that the final result is much heat without any appreciable light.

Yet the questions Mr. Sinclair attempted to raise, and failed to raise in any effective way in the mind of the profession because of the intemperance of his methods, are important ones and worthy of study. An educated and idealistic newspaper writer, employed by one of the leading New York dailies, suggested to the writer that Mr. Sinclair's book was important enough to deserve—what? Not confutation, but rewriting by some careful, independent, trained investigator, who could work without excitement, who would accurately define all his terms, and guard and support every generalization with adequate documentation. For it is the generalizations in the book that are important if true, and in so far as they are true.

Fresh from a rereading of Mr. Sinclair's eloquent Philippic it was the privilege of the writer to serve as host to a hundred responsible newspaper editors, most of them newspaper owners, representing very nearly all the larger papers of one of the western states. They had travelled, some of them, hundreds of miles to be present at a two-day session at the School of Journalism of their state university for the discussion of newspaper problems. Nor had these discussions to do principally with advertising rate-, wire serv-

ice, charges for job printing, or wages. The point of most intense and general interest in the conference was the adoption of a code of ethics for journalism which has since been described by the *Editor and Publisher* of New York, a leading professional magazine, as striking "the highest note that has been sounded in American journalism." This code was passed unanimously, and a subsidiary motion was passed that it should be given fullest publicity in order that the public may "check us up if we fail to observe it."

SALVATION OF THE PRESS WITH ITS OWN PERSONNEL

The writer sat where he could see the faces of these men; their records, their successes and their failures he had observed for years; he knew the spark of genius here and perhaps the mental limitation there. With many he had been asked to consult in times of personal crisis and honest doubt. Then came to his mind the picture of a debased press, so fervently presented by the college professors, the sociologists, the free lances, of whom Mr. Sinclair is only one,¹—the picture of slavish repression, malicious carelessness, conceited ignorance, and contented corruption—and the thought came to him that the salvation of the Ameri-

¹ No slur is intended upon the report of the Intercourse World Movement on conditions in Pittsburgh. This document is of a different type and calls for a reasoned answer from those who feel aggrieved; clamorous counter-propaganda and charges of sedition are aside from the point. The reaction of the press itself to the report is shown on pp. 311 and 312 of *Public Opinion and the Steel Strike*. Harcourt, Brace & Co., 1921.

can press is with these editors more than it is with those critics; that the critical picture is overdrawn and lacks perspective and proportion.

The most virulent critics of the press as it exists do not deny the presence in the working personnel of the profession of a tremendous element of good will, character, technical knowledge, and aspiration for social improvement. The most satisfied of the newspaper's defenders—and there are many who point with pride to the contrast its present condition makes with its often erring past—cannot overlook the imperfections of the present and the need for vigilant care lest progress slacken and retrogression or decay set in. He would be an incurable optimist or a careless observer who would say that the morale of the press has not received grave wounds in the period of the War and Armistice. Yet even since 1914 certain constructive changes have been initiated within the body of the profession itself that may ultimately far outweigh in effect the degenerative influences of the orgy of hatred, narrowness and propaganda. Some of these will be specified later.

The modern press, as we know it, is less than a hundred years old. Three generations, in this country at least, have witnessed nearly the whole of the evolution of the journalist, the man who regards the gathering, presentation and interpretation of the news of the world as a science and an art, and its practice as a profession. Before, say, 1830 we have in journalism only the psychology of the pamphleteer and the politician applied through one of the collateral activities of the job printer. Even today a careless apprentice system furnishes nearly all the training for what must become, in any really well-ordered system of society, one of the most learned and scrupulous of the higher professions.

The problems of journalism can never be disconnected from the dilemmas that confront society as a whole and every newspaper office decision arises in some way from and has a reactive effect upon economic and social forces that play upon the community at large. In a perfect society good journalism would be easy. Yet he who proposes to reform society as a necessary precedent to developing a better journalism is lost to all sense of proportion; the very function of good journalism is to work toward a better society; the newspaper is to be justified as an instrument and not as an end. To wait for society to demand better newspapers is to wait too long; besides, there are more signs of hope within the profession itself than are yet to be observed in the effective demand of newspaper patrons, subscribers and advertisers—society.

NEWSPAPER PUBLISHERS OF TODAY

The newspaper publishers of today are men of varied origins and training. Many began their careers as printers; others inherited or invested in newspaper properties. The advertising solicitor, the circulation man, the newsboy, the office boy, the printer's devil, have developed into controllers of policy as frequently as the man who served his apprenticeship, such as it was, in the gathering and writing of news. An acute business judgment is a more uniform characteristic than any familiarity with the social effects of journalistic policies. Yet it is this personnel that is the strongest force behind the effort to raise journalism to a position as one of the learned and scrupulous professions. It is these men who are the backers of the new schools of journalism and it is they who encourage the teachers of journalism to criticise freely, to set up such ideals as they are capable of conceiving and

presenting, to face the facts of the situation and to seek ethical solutions. The sons of such men form a large portion of the student bodies of the better schools of journalism which have been established in the last dozen years.

These, too, are the men who, in many of the western states, gather year after year in their state universities in ever increasing numbers to discuss professional problems with each other and with the faculties and students of the schools of journalism. It was such a body of men that adopted the Kansas Newspaper Code in 1910, and such a body that decided to make clear to the public a rather definite statement of their professional practices in Oregon in 1922.

It is becoming old-fashioned in such meetings to deny that there is room for further progress in journalism, or that study of newspaper problems may be of some effect. The old tendency to resent and sweepingly repudiate anything said in criticism of the press is disappearing from the newspapers themselves. The old-time editor not only did this but did it in such a way as deeply to wound the spirit or reputation of the person who dared to criticize.

SOCIAL NEED FOR A CLARIFIED CODE

The old theory—for public consumption—was that all newspaper men, without taking thought, naturally from the first day of their careers mystically knew all the ethical implications of their acts.

"The very fact that it becomes necessary to publish a definite code of the ideals to which *most journalists have subscribed from the day they entered the profession*," says Henry Ford's *Dear-born Independent*, "is proof that somewhere all is not as it should be." The

premise and the conclusion of this reasoning both seem to be that perfection has not yet been obtained; which is correct, but the italicized words picture a miracle that has not happened.

The *New York Times*, in the more light-hearted of its editorial columns—"Topics of the Times"—takes much the same stand, narrowing the accusation down to the Oregonians whose adoption of a code calling for papers to be conducted, says the *Times*, "as reputable papers have always been" is characterized—light-heartedly—as a confession of past wickedness. Light-hearted, too, was the *Times* in violating three or four sections of the code by stating out of its own inner and incorrect knowledge that the Oregon document was not written "by a newspaper man or even a journalist."

The written code is an instrument of education. It is not a confession of wickedness nor is there anything light-hearted about it. Its function is to make clear not only to the university trained neophyte but to the untrained man in the profession, to the critical public and to the publisher himself the premises and the type of reasoning upon which newspaper decisions must be based and upon which erroneous decisions are rightly to be criticised.

The reasons behind newspaper decisions are not, upon the whole, well understood by the public. Many a conscientious act, public spirited in its intent, is interpreted as wanton cruelty or sordid sensationalism, or attributed to commercial motives. On the other hand, many a publisher utterly mistakes what the public interest really demands, or even acts upon incentives which he regards as legitimate but which sound principles of journalistic ethics should forbid.

If any body of thought ever demanded clarification, systematization,

and logical analysis, it is that of the ethics of journalism. The "codes" so far formulated, are only a basis—a sound basis, it is to be hoped—for much further study and discussion, leading finally to treatises, much more complete, upon the actual practices accepted by the profession.

ETHICAL DILEMMAS OF THE WORKING JOURNALIST

A few problems, easy perhaps to closet philosophers, but still extremely puzzling to the working journalist, may be cited to demonstrate the need of ethical study and teaching.

What is the highest duty of the press in time of war—a great war, believed to be a righteous war, a war dangerous to the very existence of the nation? "Tell the unvarnished truth as I see it," replies one, and if he sees the truth in unpopular aspects he loses his paper and perhaps his liberty. "Anything to help win the war," says another extremist. Most editors in the last few years have stood on middle ground, some toward one limit and some toward the other, leaving the public confused as to what to believe in the papers, and more than ever inclined to doubt the integrity of the press.

The Oregon Code, like all the journalistic codes published to this time, is emphatic throughout in its emphasis upon the importance of telling all the truth; yet the qualification enters inconspicuously in various connections that "if the public or social interest demands"—decidedly not the personal or commercial interest of the publisher or editor—suppression is allowable.

What does this mean?

What does it mean in case of a second-rate war, or a third-rate war with Haiti or Santo Domingo? What does it mean in such a struggle as that in the northwest in which the Non-

Partisan League is involved? Or when communism threatens what most editors consider the social and public interest? Even the struggle between parties, far less bitter than of old, may still supply honest editors with doubts. The editor's conception of the "public or social interest" is an element that it seems dangerous to leave in the code or to take out. Is it, after all, or will it in time become, his duty to tell the truth though the heavens, in his judgment, will fall?

A code must not legislate. There is no organized body in journalism that has sufficient prestige to speak for the profession or greatly to influence its practices. Yet newspapers vary from the honest and courageous to the supine, and a code can set as a minimum the best practices of the profession, and as the optimum the state of perfect knowledge, perfect good will and perfect courage. And in both its aspects, the disowning of inferior practices and the setting up of an ideal, the code can become a constructive influence in the profession.

The editor's belief as to what constitutes "public and social interest" can be affected only by the gradual moralization and rationalization of all society, by education of the young newspapermen and by logical criticism. For his informed judgment no written rule can be substituted. But more truth and much less concern with immediate results seems to be the path of progress.

If a code could legislate, there is one problem of modern journalism, greatly intensified since the War, upon which a code maker would be tempted to try his hand. It is serious enough, perhaps, to attract the interest of the state, but there is little probability that any existing legislative body would adopt sound views upon the subject. It is that of propaganda.

THE DAY OF THE "PROMOTION" AGENT

The despised "press agent" of an earlier day has developed first into the "publicity man" and then into the "promotion" expert. Now he often bears a still more dignified title. He is, perhaps, in a large corporation a fourth vice-president; in politics he is paid with tax money as "secretary" to this or that official or "assistant secretary" in some department; he thrives independently as an "agency"; in large organizations he often multiplies into a department; in some scores of universities he is camouflaged as "president's secretary" or as "professor of journalism," with duties to practice the lower functions of the profession rather than to teach the higher. His name is Legion. He was formerly a newspaper man, and a good one. He left the profession for a higher salary than he was earning as reporter or copy editor. The increasing power and prestige of the "promotion" industry helps to anesthetize the wound to his professional conscience and pride. As a trained newspaper man he needed no written code to tell him that it was wrong to sell his pen and to write news for the public under the censorship of a private interest.

He is a real problem; scoffing will not eliminate him. He is respectable. After a course in sophistry, necessitated by his self-esteem, he comes to regard himself as ethical, and his own careful statement of his functions exhibits him as a useful member of society. He worked for the government and helped win the War. Newspapers reject the great bulk of his copy, but apparently they accept enough of it to justify his existence economically.

No section of the Oregon Code has aroused so much discussion as the following sentence:

We will not permit, unless in exceptional cases, the publishing of news and editorial matter not prepared by ourselves or our staffs, believing that original matter is the best answer to the peril of propaganda.

Without the saving clause "exceptional cases," this rule would be as futile as King Canute sweeping back the tide. A great many cases are "exceptional" to this rule in average newspaper practice the country over. Not only is much of the most able and most highly paid journalistic talent of the country working today on these "exceptional cases" for private interests but the newsystem, that has grown so great since the War demonstrated the efficacy of organized propaganda, has obtained nearly exclusive control of much of the most important news matter, and has nearly shut out the professional journalist from many of its sources.

No more than any other tradesman does the promotion agent live by his wiles. He is strong because of his virtues. The news he writes he writes well. He is well trained; he has every reason for exercising great care in his work. He has sympathetic access to the prime movers in the events he records; he fortifies himself by reference to documents; he has greater leisure than the reporter and often devotes it to a sound study of his specialty. His employers value his work because it is more accurate, fairer (especially to them) than the articles that used to appear as the result of their verbal interviews with reporters, and because his articles, after they are written, can be examined and perfected before publication.

SOCIAL IMPLICATIONS OF THE PROMOTION SYSTEM

Therefore the powerful men of the community prefer to speak through their promotion agents and, as a corollary, no longer submit with the

old freedom to the interviewing of the journalist. "There is my prepared statement; I have nothing more to add. If you have further questions to ask, leave them in writing and we will supply you with a supplementary article."

The social implications of this new system are serious in the extreme. The professional journalist is cut off from much of the most important and difficult work of his profession. He loses the stimulus that comes from the necessity of careful research in dealing with the more complicated sort of news. He has lost this important function partly because he did not learn to do it well, because he often preferred "features" to facts, because he sometimes wanted only a "good story," careless of the consequences to those most concerned, because he so frequently left the person who submitted to his questioning in a state of anxious and fully justified doubt as to the use that was to be made of his words.

But only partly. Powerful individuals never like to be cross examined, and now they have largely exempted themselves from the questioning minds of the reporters who, with all their faults, represented the point of view and, as best they could, the interests of the public. Much that happens in these days is presented to the public in the words of the actors or their satellites, without evaluation through the mind of the professional journalist.

Whole sections devoted to the automobile industry, columns of theatrical "notes" and even "criticism," book "reviews," much industrial, financial and real estate "news," college and university items, stories of organized uplift movements, and a considerable body of political and administrative news from governmental centers are furnished to the press in the form of publicity "handouts." Papers use

varying amounts, some very little; some freely. All is more or less biased by private interest.

THE BUSINESS OF A WRITTEN CODE

The publication of a written code brings such questions as this to the forefront of discussion. They become more likely to receive thoughtful consideration. Perhaps the answer to this one—the problem of propaganda—will not be the elimination of the promotion agent; perhaps the best immediate step will be a practice of plainly labeling all such matter with its origin and the character of its authorship; it would seem that fairness to the public could scarcely do less.

Economic laws are behind most of the tendencies of present day journalism. The public is not willing to pay the newspaper for studious and unbiased and laborious researches into public and business questions while the private interests concerned *are* willing to relieve the newspapers of this expense for the apparently trifling privilege of editing the copy from their own point of view.

Police news and scandal, again, are cheap and easy to get. The officers of the law and the courts, paid by the state, assume most of the expense of gathering the facts. A single reporter, stationed at a strategic point, can collect columns of readable news of this kind in a single day, while the economic reporter engaged on an industrial item might require greater ability and training and yet have to work weeks upon a single article. The tendency, therefore, can scarcely be ignored to let industry and government assume the burden of the more expensive investigations, while the reporter employed by the newspaper concentrates upon the most productive matter—the cheap stuff.

If the public can be educated—and

it can—to like the latter (routine superficial sensationalism) and to accept the former (news requiring research) in its new predigested form together with the little pinch of poison the press agent inserts, we have the beau ideal of gutter journalism.

The business of a written code is to point out to all concerned that there are deep social reasons why such tendencies must be resisted. Beyond the making clear of causes and results, ethics, as a science, does not go. From that point good will and clean intent must take hold; if these do not exist society is in a perilous state.

THE OREGON CODE

The Oregon Code, reprinted on page 283, was written in acute awareness of the actual conditions existing in the profession. It is complete only in the sense that the author of the code was conscious and deliberate in what he was leaving out as well as in respect to what he was putting in. Intra-professional relations are not treated at all; the code studies only the relation of the newspaper to society. What freedom of action an owner owes to an editor or an editor to a subordinate; to what extent the business office may advise the professional departments, and what attitude the latter may assume toward the business problems of the publication are entered into not at all. The Oregon Code is addressed to the responsible controlling power in the newspaper office; whoever may be in control, in general or in a particular matter, these are the principles he should follow.

PROPOSAL AND ADOPTION

To an unusual degree, also, the Oregon Code is, in its own state, a declaration by, as well as for the controlling element in journalism. The adoption of the code was decided upon

by the Oregon State Editorial Association in its annual session at Bend, Oregon, in July, 1921. This body is composed almost entirely of the owners of smaller newspapers, most of them weeklies or county seat dailies. The proposal was presented to this body by C. V. Dymont, a newspaper man of many years' experience, who in 1913 became a professor in the School of Journalism at the University of Oregon, and who has lately, in addition to his duties in the professional school, become Dean of the College of Literature, Science and the Arts. The Convention commissioned Mr. Dymont, who was the representative of the School of Journalism at the meeting, to take charge of drawing up a code which should lay the emphasis not upon such matters as the maintenance of rates, etc., but upon the ethical relation of the newspaper to the public. He was instructed to report at the winter meeting of the Oregon Newspaper Conference at the School of Journalism at Eugene, a larger body which includes besides the membership of the State Editorial Association strong representation from the state metropolitan papers.

Mr. Dymont first laid his code before the faculty of the School of Journalism, and then before the annual Conference which, as it happened, was the most representative body of newspaper men, both employers and employees, that had ever assembled in Oregon. All the Portland dailies were represented, nearly all the dailies in the state, an unusually large proportion of the weeklies, and a good scattering of the trade and class journals. In most instances the papers were represented by their controlling authorities in person.

CHARACTER OF THE CODE

The strength and the weakness of the Oregon Code can be expressed in the

same sentence: It consists in a declaration of principles upon which virtually all experienced and conscientious newspaper men say they agree. It is chary of either prescribing or condemning concrete practices. Under this code practices will differ, for editors will apply these principles differently.

This can be illustrated from Section III, of the Code, "Justice, Mercy, Kindliness" (page 284). Here Rules 11, 12, 14 and 15 will in actual office practice come into conflict almost daily with Rule 13. Rule 13 means that the friend must be treated with the same cruelty with which the friendless stranger is treated; that the eminent citizen and wealthy advertiser has no more right to privacy for his misdeeds than the resourceless stranger within the gates; that the tortured applicant who comes in person to beg the editor's mercy may not have it unless the paper policy is equally merciful to all. Or, to put it conversely, the stranger is entitled to the same kindness and mercy as the friend, the poor as the influential.

Such a code as this, setting forth principles rather than practices, can scarcely be "enforced" in American journalism as at present organized. However, it is expected by the State Editorial Association to have some "teeth" and possibly to effect some changes in the profession. In the first place, the public is taken into the confidence of the papers. The School of Journalism, by request, has printed conspicuous wall cards in two colors, two feet by three, in which form the code will be displayed in the various newspaper offices where the public and any complaining members of the public may see it. The State Editorial Association, also, has had stereotype plates made which are being sent to each paper in the state to make practicable the publication of the code in full by all the papers. Many of the papers

in the larger cities printed the code without waiting for this assistance.

APPLICATION OF ITS PRINCIPLES

The first section of the code, "Sincerity; Truth" (page 284), disowns all sophistries, and, in effect, pledges the paper that prints the code or displays it in the office to an observance of its principles. It "interprets accuracy not merely as the absence of actual misstatement, but as the presence of whatever is necessary to prevent the reader from making a false deduction." It also accepts the duty of openly acknowledging error. The reluctance of newspapers to retract erroneous statements and opinions in any wholehearted way has an interesting history reaching back to some not ignoble English precedents of a hundred years ago, but under American laws and conditions today, remedy through the court is not adequate, and refusal to make a willing and wholehearted retraction is often only stubborn meanness. This the Oregon editors disown.

CARE; COMPETENCY; THOROUGHNESS

Section II, "Care; Competency; Thoroughness" (page 284), has more in it than appears at first sight. It is, in a way, a mandate from the press to the Oregon School of Journalism to regard journalism "as a learned profession." This is not the way his vocation is regarded by many a reporter today, as anyone familiar with the American press well knows. Little midnight oil is burned in the study of the arts and sciences, or the fundamentals of sociology, economics, politics or religion by many reporters. Unlike the young ambitious lawyer or doctor, the reporter does not usually believe that success in his profession depends upon any intellectual effort aside from performing the tasks of the day; with the result that in many

instances he does not attain a high degree of competency—or reward, for that matter. What university instruction and guidance in this respect can accomplish, the next twenty years will tell.

MODERATION; CONSERVATISM; PROPORTION

Section IV, "Moderation Conservatism; Proportion" (page 235), is expressed in general terms, but it is not so moderate or conservative as it looks. Its meaning is clear. It declares against a certain type of newspaper well known especially in the larger cities of the country. It is hard to see how a typical "tabloid illustrated," or a street sale thriller, issuing a new edition every fifteen minutes with the latest item shouting down the more important news of half an hour before could live under this rule. One Oregon newspaper, with admirable honesty and straightforwardness, entered a "reservation" against those parts of the code which might be understood to militate against efforts at direct leadership and the emotional concentration of public attention upon even minor evils until they are corrected. The case for the more fanatical sorts of journalism is, in fact, arguable if the paper is sound at heart and incorruptible and is actuated by a sound principle; but the Oregon editors have definitely declared for a more philosophical and proportioned presentation of news and opinion. As a matter of fact, Oregon is a state characterized by an almost entire absence of sensational journalism; and it is not greatly the loser by this fact.

PARTISANSHIP AND PROPAGANDA

Section V is devoted to "Partisanship; Propaganda" (page 285). Small countries like England and France, with dozens or scores of papers printed in a centrally located metropolis and

equally accessible throughout the country on the day of publication or the next morning, can afford a partisan press or special papers adapted to various social groups or classes. Such an arrangement has certain advantages of its own. But in America geography decrees that two or three papers must serve the entire population of a given area, rich and poor, ignorant and educated, Democrat and Republican, coarse and refined, conservative and radical. The American journal therefore is too much like a public service corporation to make partisanship, in the news at least, permissible. It is the American newspaper that has developed the "non-editorial" method of telling news facts, and which is struggling toward an unpartisan way of selecting news and governing emphasis—a much more difficult matter. It is for this attempt that the Oregon papers have declared themselves. As for propaganda, it is a snake that must somehow or other be scotched, or it will choke out much of the best opportunity in the profession.

PUBLIC SERVICE AND SOCIAL POLICY

Section VI, "Public Service and Social Policy" (page 285), does not deny that the determination of "what the public wants" is and ever will be one of the great and puzzling problems of the journalist, but it does deny that the gratification of the public's whims is the foundation or only principle of journalism or that the newspaper editor is a mere merchant of information and entertainment. The public must have the facts; it must not be fooled or enticed to what the editor regards as right action; it must receive no prettier picture of the world than the facts justify; it is entitled to receive from the newspaper the factual basis on which it may, if it will, form opinions different from those of the editor, but the rules

of decency and good taste are not abrogated. It is just as well, however, that this rule is not capable of explicit statement; papers ought to continue to differ as to what "social policy" prohibits and as to what complete frankness demands.

ADVERTISING AND CIRCULATION

Section VII, "Advertising and Circulation" (page 286), does not adopt the policy widely advertised by some Eastern publications of guaranteeing every statement made and every article offered in the advertising pages. Such a rule implies vast facilities for investigation. It does promise, however, that all matter will be barred which the publisher believes harmful or intended to deceive.

A recent questionnaire sent out by the School of Journalism revealed that a considerable number of Oregon publishers are already excluding from their advertising pages considerable classes of copy. Some accept no oil or mining promotion schemes except where production is already established; some, nothing speculative; some bar all

medicines to be taken internally; some exclude cigarettes and one or two, all forms of tobacco. Many stated that they took no advertising which they believed fraudulent or harmful—the rule since enacted into the code. These facts illustrate some of the difficulties that await the future author of a code which shall be explicit as to practices and which will not, like the Oregon Code, rest content with principles. There are mining and oil prospects which by reason of their location and management are good speculative investments; there are some internal remedies which—while they may work evil by postponing the needed visit to the doctor—are useful and harmless; and many think tobacco is one of the blessings bestowed upon man by a kindly Providence.

But conscience is alive in the newspaper profession; the writer knows many; many newspapers which sacrifice and have sacrificed profits to principle; and the establishment of a code is a step in the already active mobilization of the constructive ethical forces in journalism.

The Practice of the Kansas Code of Ethics for Newspapers

By ALFRED G. HILL

Lawrence, Kansas, sometime reporter on certain Kansas daily papers and on the Public Ledger of Philadelphia

THE "Code of Ethics for Newspapers" was adopted by the Kansas Editorial Association March 8, 1910, thus making it one of the earliest, if not the earliest code of its kind adopted by a state association. The Code was largely the individual work of the late W. E. Miller, a country editor living at St. Marys, Kansas. It represented years of thought and

much work on the part of Mr. Miller, whose interest continued until his death two years ago, and who followed closely the gradual advance made in newspaper standards.

An important contribution of the Kansas Code outside of the state has been the stimulating of other state associations and organizations to adopt codes which are beneficial, to say the

least. In this article, the Kansas Code, which is still presumably the standard for Kansas publications, will be considered by sections in relationship to its effect on Kansas newspapers after twelve years.

As an early code there are necessarily imperfections, and it is significant that in a number of cases present accepted standards have advanced beyond the standards outlined by Mr. Miller in 1910. Miss Ruth Armstrong, a graduate in the University of Kansas Department of Journalism, who is preparing her thesis on "The Ethical Responsibility of the Newspaper," states, however, that the Kansas Code is more comprehensive than many of the codes adopted by other state editorial associations since 1910. The writer is indebted to Miss Armstrong for much information on which comment regarding the Kansas Code is based.

As interesting as the Kansas Code, is the discussion and argument printed by Mr. Miller at the time of the Code's adoption. Mr. Miller saw in the efforts then being made in Congress to restrict postal rights of newspapers, an indication that newspapers were guilty of offenses against public interest. He outlined these offenses under three headings: (1) influencing reports to serve the interest of larger advertisers; (2) influencing reports to serve political ambition; and (3) offenses against the sensibilities of more enlightened people while influencing the reports to sate the morbid appetite of those less enlightened.

Mr. Miller called attention to the presidential message of George Washington advocating the transmission of newspapers and periodicals through the mails free of postage. Washington held that such publications were public utilities "because they were calculated to preserve the liberty,

stimulate the industry, and meliorate the morals of an enlightened and free people."

"The sensational journalism and large advertising interests of today were unknown then," Mr. Miller said. "The former does not meliorate the morals of the people, and the latter does not tend to the preservation of their liberties." Mr. Miller urged that the postal restrictions were the natural result of newspaper policies that tended away from public interest. He advocated self-control of newspapers by the publishers themselves along the right lines to prevent governmental restrictions. The Code was offered as a standard of guidance.

"I do not anticipate that such a code would be practised to the letter," Mr. Miller explained. "In our case we have no power of enforcement and want none.

"We might have a state board of press discipline whose members are selected by this association, and who are empowered by statute to hear complaints and try offenders, but such a board is, like legal or postal interference, subject to very serious objections. We would better obtain the desired results by recommending that our state department of journalism imitate the example of that famous institution, Fordham University, which was the first law school in the land to offer a course in professional ethics, and urge that our University school take advantage of its fine facilities and offer a course in newspaper ethics."

Since that time, newspaper ethics has become a regular subject in the Department of Journalism of the University of Kansas in the course, "Newspaper Problems and Policies."

The Kansas Code is in two general divisions: first, for the publisher; second, for the editor. Under the heading, "For the Publisher," there

are four general headings to cover advertising, circulation, estimating (every small Kansas newspaper office has its job shop), and news (news under this heading being considered from the publisher's standpoint). The code for the editor is briefer and deals largely with the presentation of the views of the editor. The Code will be given in full with discussion of its effect and actual practice following each general division:

FOR THE PUBLISHER IN ADVERTISING

Definition. Advertising is news, or views, of a business or professional enterprise which leads directly to its profits or increased business.

News of the industrial or commercial development of an institution which in no way has a specific bearing upon the merits of its products is not advertising.

Beside news which leads to a profit, advertising also includes communications and reports, cards of thanks, etc., over the space of which the editor has no control. Charges for the latter become more in the nature of a penalty to restrict their publication.

Responsibility. The authorship of an advertisement should be so plainly stated in the context or at the end that it could not avoid catching the attention of the reader before he has left the matter.

Unsigned advertisements in the news columns should either be preceded or followed by the word "advertisement" or its abbreviation.

We hold that the publisher in no degree be held responsible for the statement of fact or opinion found in an advertisement.

Freedom of Space. We hold the right of the publisher to become a broker in land, loan, rental and mercantile transactions through his want and advertising columns and condemn any movement of those following such lines to restrict this right of the publisher to the free sale of his space for the

purpose of bringing buyer and seller together.

This shall not be construed to warrant the publisher as such in handling the details, terms, etc., of the trade, but merely in safeguarding his freedom in selling his space to bring the buyer and seller together, leaving the bargaining to the principals.

Our advertising is to bring together the buyer and the seller, and we are not concerned whether it is paid for and ordered by the producer, the consumer or a middleman.

Acceding to any other desires on the part of traders is knocking the foundations out from under the advertising business—the freedom of space. We hold that the freedom of space (where the payment is not a question) should only be restricted by the moral decency of the advertising matter.

We hold that the freedom of space denies us the right to sign any contract with a firm which contains any restriction against the wording of the copy which we may receive from any other firm, even to the mentioning of the goods of the first firm by name.

Compensation. We condemn the signing of contracts carrying with them the publication of any amount of free reading matter.

We condemn the acceptance of any exchange articles, trade checks, or courtesies in payment for advertising, holding that all advertising should be paid for in cash.

We condemn the giving of secret rebates upon the established advertising rate as published.

Rates. All advertising rates should be on a unit per thousand basis and all advertisers are entitled to a full knowledge of the circulation, not only of the quantity but also of the distribution. Statements of circulation should show the number of bona fide subscribers, the number of exchanges, the number of complimentaries, and the number sold to newsdealers, and if possible the locality of distribution, in a general way.

Position. Position contracts should

be charged a fixed percentage above the established rate of the paper, and no contracts should be signed wherein a failure to give the position required results in a greater reduction from the established rate than the position premium is greater than the established rate.

Comparison. We consider it beneath the dignity of a publisher to place in his columns statements which make invidious comparisons between the amount of advertising carried or the circulation of his paper and that of his competitor.

Press Agents and Unpaid Advertising. The specific trade name of an article of commerce, or the name of a merchant, manufacturer or professional man WITH REFERENCE to his wares, products, or labors should not be mentioned in a pure news story.

We condemn as against *moral decency* the publication of any advertisement which will obviously lead to any form of retrogression, such as private medical personals, indecent massage parlor advertisements, private matrimonial advertisements, physician's or hospital's advertisement for the care of private diseases, which carry in them any descriptive or suggestive matter of the same.

Under the "responsibility for advertisements," the Code discusses two important phases: First, there is the matter of unsigned advertisements. The Code declares unqualifiedly that any matter for which payment is made, shall be clearly marked as such.

It is notable that there is no limitation as to distinction in typography for advertisements from news. Mr. Miller in his printed article says: "I have no objection to practically any method's being used by the advertiser to induce the reader to read his advertisement, provided the reader learns before he is through that it is an advertisement." Many Kansas editors believe that there is distinct room for argument on this point. Also, it must be admitted

that newspapers in some instances are careless in meeting the present legal requirements that advertisements be plainly marked or distinguished from unpaid matter. On the other hand, this carelessness is becoming less noticeable and there can be no doubt of the attitude of disapproval of the practice of former years of carrying "paid readers" as news matter.

The second phase of responsibilities considered by the Code exonerates the publisher from any degree of responsibility for statements in the advertisements. Since 1910 such publications as *Good Housekeeping*, the *New York Tribune* and others have assumed responsibility for statements in their advertisements, and it has been stated by representatives of these publications that the practice of assuming such responsibility has been good business from a practical standpoint. The natural conclusion is that a distinct step may be taken in advance of the Kansas Code in regard to responsibility. In Kansas, no newspapers, as far as the writer knows, so obligate themselves.

The plank concerning "freedom of space" has more to do with the problems coming before a small-town editor. It is noted that the only limitation which the Code assumes as to freedom of space is that of moral decency in the advertising matter.

"In the case of many questionable speculative propositions there may be objection to this interpretation of the freedom of space," Mr. Miller states. "Upon these I hold that the freedom of space demands that we take the money, print the advertisement, but see that the copy is so worded that the responsibility rests entirely with the promoter. We do not run speculative assurance associations to protect people from their misjudgments," he concludes.

This statement is open to vigorous attack. It is notable that very few Kansas newspapers publish advertisements for wild-cat oil companies, mining concerns, and the like. Recently a Kansas City newspaper of the lurid type has devoted a section to speculative advertisements of doubtful nature, but the disapproval of a number of Kansas editors of such advertisements has been stated publicly. Kansas was the pioneer in "blue sky" legislation. The State Board passes on the right of promoters to sell stock in the state and the recommendations of this board afford guidance for newspapers in acceptance and rejection of advertisements of speculative nature.

A "touchy" case in regard to compensation for advertising is taken up in condemnation of the giving of secret rebates. In the past decade the small-town newspaper has made great advancement in more businesslike conduct of its business. No longer is the editor who is willing to accept potatoes for subscriptions considered in good standing by his associates. Another effect of the more businesslike methods has been the standardization of rates. The giving of secret rebates (which newspapers condemn so vigorously on the part of railroads) has been lessened. The writer has personal knowledge that this practice is continued to a limited extent by some reputable newspapers, especially where competition is severe and publishers are anxious to make a showing in advertisements.

The condemning of advertisements of doubtful decency is natural, and it is in this phase of advertising that probably the greatest advance has been made since the publishing of the Kansas Code. The so-called aristocracy of Kansas newspaper men, which makes up the most of the

Kansas State Editorial Association, has contempt for the newspapers that publish doubtful advertisements and it must be admitted that an important reason for advancement in this line has been legal restriction.

FOR THE PUBLISHER

IN CIRCULATION

Definition. Circulation is the entire list of first-hand readers of a publication and comprises the paid readers, complimentary readers, exchange readers, and advertising readers.

Compensation. Subscriptions should be solicited and received only on a basis of cash consideration, the paper and its payment being the only elements to the transaction.

Newsdealers. The purchase of a quantity of papers should be made outright, allowing for no return of unsold copies.

Gambling. We condemn the practise of securing subscriptions through the sale or gift of chances.

Complimentaries. Complimentary copies should not be sent to doctors, lawyers, ministers, postal clerks, police or court officials for news or mailing privileges.

Since the publication of the Kansas Code, the federal government has been putting into effect restrictions against unlimited complimentaries and delayed payments of subscriptions. The same advance in business methods that has taken place in newspapers of recent years, has cut down the complimentary copy evil, also, and limited investigation by the writer has failed to reveal any newspapers that had officials on its free list in return for special privileges. An exception to this statement must be made in regard to postal clerks.

There is a special importance attached to the statement in the Code that subscriptions should be solicited and received only for cash and that the

payments for the paper be the only element of the transaction. There are a few Kansas newspapers which still give premiums for payment of subscription. This practice has decreased materially, however, and the old-fashioned newspaper subscription contest is also a rarity in Kansas.

FOR THE PUBLISHER IN ESTIMATING

Definition. Estimating is the science of computing costs. Its conclusion is the price.

Basis. We do not favor the establishment of a minimum rate card for advertising which would be uniform among publishers, but we do favor a more thorough understanding of the subject of costs and commend to our members the labors of the American Printers Cost Commission of the First International Cost Congress recently held in Chicago. Let us learn our costs and then each establish a rate card based upon our investment and the cost of production, having no consideration for the comparative ability of the advertisers to pay, or the semi-news nature of the advertisement.

Quantity Discount. We consider it unwise to allow discounts greater than 10 per cent from the rate of first insertion for succeeding insertions.

The material advance in the business methods of computing possible costs has been the result of self-interest on the part of publishers; the Code, here, is merely a statement in favor of methods which will allow a fair profit.

FOR THE PUBLISHER NEWS

Definition. News is the impartial report of the activities of mind, men and matter which do not offend the moral sensibilities of the more enlightened people.

Lies. We condemn against truth:

(1) The publication of false illustrations of men and events of news

interest, however marked their similarity, without an accompanying statement that they are not real pictures of the event or person but only suggestive imitations.

(2) The publication of fake interviews made up of assumed views of an individual, without his consent.

(3) The publication of interviews in quotations unless the exact approved language of the interviewed is used. When an interview is not an exact quotation it should be obvious in the reading that *only* the thought and impression of the interviewer is being reported.

(4) The issuance of fake news dispatches, whether the same have for their purpose the influencing of stock quotations, elections, or the sale of securities or merchandise. Some of the greatest advertising in the world has been stolen through the news columns in the form of dispatches from unscrupulous press agents. Millions have been made on the rise and fall of stock quotations caused by newspaper lies, sent out by designing reporters.

Injustice. We condemn against justice:

(1) The practice of reporters making detectives and spies of themselves in their endeavors to investigate the guilt or innocence of those under suspicion.

Reporters should not enter the domain of law in the apprehension of criminals. They should not become a detective or sweating agency for the purpose of furnishing excitement to the readers.

No suspect should have his hope of a just liberty foiled through the great prejudice which the public has formed against him because of the press verdict slyly couched in the news report, even before his arrest.

We should not even by insinuation interpret of facts our conclusions, unless by signature we become personally responsible for them. Exposition, explanation, and interpretation should be left to the field of the expert or specialist with a full con-

sciousness of his personal responsibility.

(2) The publication of the rumors and common gossips or the assumptions of a reporter relative to a suspect pending his arrest or the final culmination of his trial. A staff of reporters is not a detective agency, and the right of a suspect to a fair and impartial trial is often confounded by a reporter's practise of printing every ill-founded rumor of which he gets wind.

Indecencies. Classification: for the sake of clearness and order, crimes with which we will be concerned may be divided into those which offend against the PUBLIC TRUST (such as bribery, defalcation, or embezzlement by a public official); those which offend against PRIVATE INSTITUTIONS OR EMPLOYERS (which are also often defalcations and betrayals of confidence); and crimes which offend against PRIVATE MORALITY most often centering around the family relation.

(1) In dealing with the suspicions against PUBLIC OFFICIALS or trustees we urge that ONLY FACTS put in their TRUE RELATION and records be used in the news reports.

(2) In dealing with the suspicions against agents of private institutions facts alone put in their true relation should again be used.

(3) In dealing with the offenses against private morality we should refuse to print any record of the matter, however true, until the warrant has been filed or the arrest made, and even then our report should contain only an epitome of the charges by the plaintiff and the answers by the defendant, preferably secured from their respective attorneys.

No society gossips or scandals, however true, should ever be published concerning such cases.

However prominent the principles, offenses against private morality should never receive *first page position* and their details should be eliminated as much as possible.

Certain crimes against private morality which are revolting to our finer sensibilities should be ignored

entirely; however in the event of their having become public with harmful exaggeration we may make an elementary statement, couched in the least suggestive language.

In no case should the reckless daring of the suspect be lionized.

(4) Except when the suspect has escaped his picture should never be printed.

Naturally the news element has the greatest public interest.

In regard to the condemning of untruthful statements, there has been an advance since the adoption of the Code. There is now practically no use of fake illustrations and fake interviews. However, interviews are still published in Kansas, just as in other states, which violate the requirement in the Code that only exact quotations be used in quotation marks.

In the matter of injustice in the handling of news, the Code has a comprehensive statement. I believe that the small-town newspapers have less of a tendency toward injustice in forming public opinion regarding a criminal than a large city newspaper. I believe it fair to state that the effect of the Code has been to call attention of editors to their responsibility in the matter of justice in a way that has brought favorable results. The condemning of the practice of reporters' making themselves detectives in connection with criminal cases, is sweeping. There are reporters who will justify themselves in limited activities in aiding the police in crime detection. The Code discusses the matter from the publisher's viewpoint, which calls attention to an interesting comment made by Governor Allen of Kansas, who is proprietor of the *Wichita Beacon*. In a recent letter to Miss Armstrong, he states:

It always remains a problem to secure from one hundred individuals united in

the preparation of a newspaper, the sort of reaction that makes the paper an expression of all you would have it be.

The human element in a newspaper frequently prevents the living-up to the Code, even though the publisher so wishes.

There are members of the family of reputable newspapers which do not meet all of the requirements of the Code regarding so-called indecency. In the publication of uncertain crime material it is doubtful whether much progress has been made since the Kansas Code was written. In the opinion of the writer the rather upset conditions following the War have probably lowered standards of newspapers. Two specific suggestions of the Kansas Code are interesting: One is that the picture of a suspect should not be published except to aid in apprehension; the other, that doubtful crime material be kept off "page one position" when published.

FOR THE EDITOR

VIEWS

Definition. Views are the impressions, beliefs, or opinions which are published in a paper, whether from the editorial staffs of the same, outside contributors, or secured interviews.

A Distinction. We hold that whenever a publication confines the bulk of its views to any particular line of thought, class of views, or side of a mooted question, it becomes to that extent a class publication, and inasmuch ceases to be a newspaper.

An Explanation. You will note by our definition of news that it is the impartial portrayal of the decent activities of mind, men and matter. This definition applied to class publications would be changed by replacing the word IMPARTIAL with the word PARTIAL.

In this section we will deal with IMPARTIALITY in the presentation of the

decent activities of the mind of the community—with the views or editorial policy of a paper.

Responsibility. Whereas a view or conclusion is the product of some mind, or minds, and whereas the value and significance of a view is dependent upon the known merit of its author or authors, the reader is entitled, and has the right to know the personal identity of the author, whether by the signature in a communication, the statement of the reporter in an interview, or the caption in a special article and the paper as such should in no wise become an advocate.

Influence (editorial). We should avoid permitting large institutions or persons to own stock in, or make loans to our publishing houses if we have reasonable grounds to believe that their interests would be seriously affected by any other than a true presentation of all news and a free willingness to present every possible point of view under signature or interview.

Influence (reportorial). No reporter should be retained who accepts any courtesies, unusual favors, opportunities for self-gain, or side employment from any factors whose interests would be affected by the manner in which his reports are made.

Deception. We should not allow the PRESUMED knowledge on the part of the interviewed that we are newspaper men to permit us to quote them without their explicit permission, but where such knowledge is certain we insist upon our right to print the views unless directly forbidden.

Faith with Interviewed. An interview or statement should not be displayed previous to its publication without the permission of the author.

Bounds of Publicity. A man's name and portrait are his private property and the point where they cease to be private and become public should be defined for our association.

The Kansas Code takes up a vital problem for every editor. As a general

rule the Kansas editor has made favorable progress along the lines outlined by the Code. The whole matter of editorial views simmers down to the personal responsibility of the editor in charge to be the spokesman of public interest. The requirement of the Code that editors keep free from financial influence is logical. Especially is this true of a few of the Kansas newspaper publishers and editors, as Mr. Miller was undoubtedly aware. Scores of Kansas newspapers have been financed by banks, sometimes to the embarrassment of the editors, and some cities have been fortunate enough to see two newspapers as spokesmen for two opposing bank factions. It is the natural desire of every editor to become free from such influence and this freedom is gradually being achieved. Likewise, the better class of bankers are realizing more and more that their financial interest in the newspaper does not carry with it the right of editorial influence unless the banker himself is the editor.

The statement of the Code that a man's name and portrait are his private property must meet limitations from the newspaper man's standpoint. The Kansas State Editorial Association has not taken upon itself to define the point at which the rights of the private individual to prevent publication of facts concerning him, extends. Every individual has the right of the protection of the law of libel against injustice by a newspaper, but it is a commentary either on the high standard of Kansas newspapers or the inadequacy of the law that libel suits are very rarely successful.

Individual planks of the Code from the standpoint of the editor are undoubtedly violated; for example, reporters, to the personal knowledge of the writer, are not immune from

special courtesies given by interested persons with selfish interests. Part of this is the fault of the publisher who winks at such practices or pays a low wage.

It is difficult to judge the influence of the Kansas Code of Ethics except in a very general way. It has had its influence in the profession; it has turned the thoughts of its practitioners in the direction of the ethics to be adopted in the conducting of their business. On the other hand, the Code, as a code, is not studied with any frequency by individual editors and publishers. Miss Armstrong, in conducting her investigation, received letters from scores of editors over the country in answer to her queries. Six of the most prominent leaders in the Kansas editorial profession discussed the ethical phase of their business without mentioning specifically the code which their editorial association had adopted. However, the answers stating the individual opinions of the editors, lived up to, in every respect, the requirements specified by the Code.

The statement by William Allen White, publisher of the *Emporia Gazette*, to Miss Armstrong is particularly illuminating:

Generally speaking, I do not print any advertising in the *Gazette* which I could not personally guarantee. That means that I won't use any patent medicine, travelling doctors, unregistered oil stock, or any unregistered stock, travelling fire sales, slaughter sales, and any sort of travelling merchandisers, and I refuse to print any advertisement to lure girls to the city for employment. We also refuse matrimonial agencies, and all that sort of thing. In the news end we have just one rule; the subscriber runs the paper and the advertisers have no right the subscriber is bound to respect, and in that way the subscriptions are kept up and the advertiser, in the long run, profits.

The Ethics of Industrial Publishing

By HENRY H. NORRIS

Managing Editor, Electric Railway Journal

WITHIN twenty-five years past the publishing of that type of class periodicals known as industrial papers has grown to be a business of large proportions. While exact statistics are not available, the volume of annual business is at least \$50,000,000 and more than 1,400 publications are issued. These are mainly of two varieties: trade or merchandising papers and technical papers, but there are others of a more general character while still lying within the industrial field.

PECULIAR NATURE OF INDUSTRIAL PUBLISHING

The publishing of business papers differs in many particulars from newspaper publishing. While their essential functions of gathering, disseminating and interpreting information are the same, the relation between the publishers on the one hand, and their subscribers and advertisers on the other, is not the same. The industrial publication reaches a class of readers who have special trade or technical interests, and it serves them along the lines of these interests. The newspapers are addressed to readers of many kinds and with a wide range of interests. Every worthwhile industrial publication, therefore, occupies a position as teacher and leader to a group of specialists, which is small in number compared with the subscription lists of the newspapers and general magazines of similar standing.

Because the clientele of the business paper is small, the range being roughly two thousand to twenty times that number, the publisher and his staff can maintain intimate contact with

their circle of readers. In fact, such a relation must be maintained if the efforts of their publication are to succeed. He and his associates are active and occupy leading positions in the industrial organizations in the field of their paper, and they spend much of their time in visiting the important centers of activity in their specific industry. As a result they are personally acquainted with large numbers of their subscribers, including practically all of those who are leaders of thought and action among them.

The relation of the business paper publisher to his advertisers is also an intimate one. The publisher is in a position to sense the marketing and even the production problems of the advertisers, due to the necessarily wide scope of his vision of the particular industry which they are trying to serve with their products. He thus can advise as to the form and matter of advertising copy, as well as the general features of advertising campaigns and detail plans.

The intimate relation which exists between the business paper publisher and his clientele has rendered desirable, and in fact necessary, a special code of ethics to cover his case. Not only is this true for the reasons already explained, but also, and particularly, because there is a close relation between the editorial and advertising columns of his paper. The editorial and advertising departments are fundamentally addressed to the same people, for the same purpose. This is to enable the subscribers to do their work better and more economically. Thus, when a highway paper explains editorially how to build a satisfactory roadway,

its advertising columns carry the message of the manufacturers and dealers who are prepared to supply the apparatus necessary for the building of a highway, of the engineers who are expert in highway building, of book publishers who issue treatises on highway construction, of contractors and communities who require men to do the higher grades of work in this field, and many others who need to be brought into touch with possible customers.

ESSENTIAL INDEPENDENCE OF EDITORIAL AND ADVERTISING COLUMNS

This parallelism between the editorial and advertising functions of the business paper involves coöperation between the corresponding departments of the paper, but not collusion for the purpose of giving an advertising tinge to the editorial columns. A danger with respect to the latter does exist and it is a serious one. The existence of this danger has, in fact, been the primary cause of the development of a special code of ethics for business publishers. And a further reason for a code of ethics is that advertisers and subscribers may know that the publishers adhere to high standards which, among other things, prevent improper use being made of the editorial columns.

Of course, the actual editorial standards of reputable business papers have long prohibited the insertion of disguised advertising material such as "puffs," "write-ups" and the like. The terms connote to the editorial mind a group of highly undesirable types of article. However, all editors have not applied the principle to an equal degree and a few papers have not appreciated the extent to which their best success depends upon complete independence of the editorial and advertising columns. The papers which have adhered to higher standards

have been in the majority for many years, but they have not attempted to formulate a code of principles until within a few years past because they have had no way of functioning as an industry. The fact is that industrial publishing has recognized itself as an industry for less than two decades. Before this, although individual papers were provided to meet the needs of different branches of industry, they, like the branches of industry with which they were identified, thought of themselves as isolated units. Gradually, however, industry began to find itself as a national affair and, under the same centripetal forces which have been drawing the several branches of industry together, the related business papers have been drawn together in national organizations. These organizations have been formed to assist in the solution of common problems, to enable the publishers to stand together where their rights and privileges were involved, and to permit the codification of guiding principles which will tend to elevate the standards of service of industrial publications.

TWO POINTS OF VIEW IN BUSINESS PUBLISHING

One of the salient problems connected with self-improvement in this business has been to determine the point of view from which industrial papers should be published. One might as well frankly face the fact that there were, and are still, two radically different points of view. From one, industrial publishing is considered primarily as a business, the service feature being secondary or incidental. The other point of view is that in which the principal stress is laid on service to the industry in all its various phases, the advertising being included as part of the service. In this case, the profits of the business

are considered somewhat of a by-product, the conviction of the publisher being, however, that good service, intelligently placed from the business standpoint, will be sure to receive financial reward. Essentially, these two points of view in business publishing are the same as those which are met in the individual citizen in everyday life. After all, what the publisher and the individual have to sell is fundamentally service.

There is reason, of course, behind both of these points of view, and there is not so much difference between them as might appear at first sight. The difference while small is, however, vital. It is one of emphasis. Thus the attitude of one publisher says, "the profits first," even if his words are different. That of the other says, "the reader first," whether he subscribes to a creed which formulates his attitude or not. The latter is the modern, progressive industrial publisher. He is the one who has been forward in the movement to raise the standards of the business.

From what has been said, the reasons underlying the formulation of "Standards of Practice for Business Papers"¹ may be inferred. As publishers got together in their local and national associations to discuss their problems, they felt the need for some yardstick by which to measure their own performance along ethical lines. Their idea was not to produce a police code which would permit the bringing of transgressors before the bar of industrial publishing justice, but rather to draw an outline of what industrial publishing is at its best. The "code" has been accepted in the spirit in which it was drawn and, in the opinion of leading publishers in this field, is accomplishing its purpose. A glance through any good industrial paper today will dis-

close little material in the editorial columns that bears the mark of disguised advertising, and little in the advertising pages that is extravagant in claim or derogatory of competitors.

THE ASSOCIATED BUSINESS PAPERS, INCORPORATED

So much by way of a background for the "Standards of Practice." Let us now examine briefly the organization which is promulgating them, the Associated Business Papers, Incorporated. This is the outgrowth of a movement of the industrial publishers to get together nationally, which in 1906 took the form of the Federation of Trade Press Associations in the United States. As the name of that organization indicates, there were already a number of local publishers' associations extant. These had been formed from time to time to bring together the men engaged in this branch of the publishing business for the purpose of exchanging views and experience, at the same time enabling them to take a united stand where such action would be helpful to the industries which they represented and to their own individual industry as well.

At its annual convention in 1913 the Federation adopted a "Declaration of Trade Press Principles,"² ten in number, which set forth frankly just what business publishing was trying to do and what the publishers believed to be the essentials of good service. Good service, the "Principles" stated to be the basis on which every trade paper should build its business. Such was a beginning which led naturally to the "Standards of Practice" which were adopted by the Federation in May, 1914, and were taken over by its successor, the Associated Business Papers, Incorporated. This, the present association, was formed in

¹ See Appendix, page 296.

² Reprinted on page 295.

1916, because the Federation proved to be too unwieldy and loosely articulated an organization for the purpose of securing results in reasonable time.

The new association, however, built upon the foundation laid by its predecessor, and adopted as one of its requirements of membership a policy of strict adherence to the "Standards of Practice." The association is not yet all-inclusive by any means, but this does not necessarily imply that papers not included in its membership are not willing to subscribe to the "Standards of Practice." Most of them, indeed, could easily satisfy the association on this score. It is significant, however, that a prominent requirement for membership in the "A. B. P." is acceptance of the code. This fact gives to the code the weight of authority and also establishes the reputation of the Associated Business Papers, Incorporated, as an organization which maintains high standards.

In this connection it is interesting to note that the British Association of Trade and Technical Journals also has adopted "Standards of Practice"³ which are fundamentally the same in spirit as those of the American association, although differing in phraseology. This action of the British publishers and the wording of their "Standards" indicate that the problems of industrial publishing are much the same on both sides of the Atlantic.

THE "STANDARDS OF PRACTICE"

The "Standards of Practice for Business Papers" of the American association are ten in number and characterized by their brevity and practicality. They do not go into the philosophy of their subject but are confined to telling what to do under all circumstances involving ethical considerations.

³ Reprinted in full on page 297.

The "Standards" begin with the statement that the business paper is to be published primarily in the interests of the subscriber. This simple principle will serve as a basis of settlement of many of the trying problems which arise in the business. While the subscriber pays probably not more than 10 per cent of the cost of issuing the paper, the whole paper is addressed to him. The advertiser is willing to furnish the other nine-tenths of the cost for the privilege of reaching him. This money is well spent, for the industrial paper reaches a definite class of readers who are interested in the product of the advertiser. The circulation of the paper is selective, in that the paper is subscribed for, and read by people who are looking for specialized information. Thus, while in the editorial columns there is nothing which savors of advertising, the editorials and articles are directing the thought of the subscribers along lines which will make them interested readers of advertising also, if they need apparatus or service. In this way a paper, while serving the reader first, also serves the advertiser. And, obviously, it owes service of the proper kind to the advertiser who is paying most of the bills.

The second of the "Standards" calls for truth and honesty in all departments. This may seem trite, but the responsibility of a business paper for the character of the statements made in its columns and in its name by its representatives, is so great that public commitment to this principle is desirable as an acknowledgment of this responsibility.

A logical sequel to this need for truth is that for a distinct line of demarcation between facts and opinion in the paper. This need is recognized in the third "Standard," which is, of course, the rule in journalism

generally. The selection of a writer, outside the staff or within it, to prepare articles on definite subjects involving the expression of opinion is naturally guided by the feeling of the editor that such expression is needed. But opinion must be expressed in the author's name, or in the department of the paper clearly designated for that purpose. This practice safeguards the paper as well as the subscriber.

"PUFFS" AND "WRITE-UPS"

At one time the publication of "puffs" and "write-ups" in business papers was common, these terms being used to designate articles which were inserted at the instigation of the interests supposed to be benefited by the insertion. Advertising space was sometimes sold with the understanding that the advertiser and his wares would be mentioned in the editorial columns of the paper. The evils of the practice were early recognized and papers of the better class refused to print such material, pointing out that as the interests of the subscriber were the ruling consideration, no articles could be accepted which did not contain news of interest to him. The growing custom of refusing to print "write-ups" was embodied in the fourth rule of the "Standards of Practice." This rule does not imply that descriptions of manufactured devices and names of manufacturers are barred from the editorial columns. So to do would lessen the value of the paper to the reader, for it is as important to let him know that new and practical devices and services are available, as it is to furnish him with the general principles which should guide him. To be sure the person who is prepared to furnish the device or service is also a beneficiary of such editorial mention, but he is entitled to be so, provided that his benefit is a

by-product and not the purpose of the publication. Under these circumstances an article of the kind mentioned should not be stigmatized as a "write-up." It stands on its literary and technical or trade merits in comparison with the other articles in the paper.

The fifth of the "Standards" relates to the contents of the advertising columns, which must, in their way, conform to certain definite requirements, although, of course, the publisher cannot exert the control in detail here that he can in the editorial section of the paper. However, when an advertiser signs a contract for advertising service he does so with the understanding that the advertisements are to be consistent with the interests of the reader and the rights of other advertisers. While the publisher cannot guarantee the reader against loss through following the suggestions contained in an advertisement, he does assume a degree of responsibility. The reputation of the paper is to some extent behind every advertisement printed. With relation to other advertisements in the same or related lines, each piece of copy must stand on its own feet and not try to magnify the merits of what it describes at the expense of competitors.

The list of "Standards" begins with those relating to the interests of the subscriber and the need for truth and honesty in general. In the sixth "Standard" these begin to be more specific, in that subscriptions and advertising are specified to be solicited solely on the merit of the publication. Such a rule implies a tendency the other way, namely to use influences other than the compelling force of data to "get the name on the dotted line" of the contract. The best papers, nowadays, rely upon close study of the business possibilities in

their fields to furnish facts upon which advertising can be intelligently placed. They further supply accurate circulation statistics, classified in accordance with the needs of individual advertisers, so that the latter can visualize their prospective audiences. The necessity for doing this is epitomized in the seventh rule of the "Standards."

The remaining three "Standards" have to do with the large questions of competition and coöperation. They are evidence of the consciousness on the part of the publisher that he does not live to himself, and his subscribers and advertisers alone; that he is a part of industry and of society. They set for him a high standard in stating that he is "to determine what is the highest and largest function of the field which he serves, and then to strive in every legitimate way to promote that function."

THE BUSINESS EDITORS' CODE

All of the foregoing relates to the code of ethics of the publisher, who of course determines all of the policies of the paper, both editorial and commercial. The editors of business papers, in addition, are finding it desirable to prepare codes of their own. This movement is quite recent, dating back only to last summer when the Editorial Conference of the New York Business Publishers' Association adopted such a code, with the title "Standards of Editorial Practice."⁴ This is an elaboration of the editorial parts of the publishers' code, and makes more specific certain of its features which are only suggested therein.

This editors' code contains only seven "Standards" of which the first four are substantially like those of the publishers' code. The two following relate to the taking of a position of editorial leadership in the industry

served, with a view to bringing it to higher levels of achievement, and to the support in the paper of such worthy measures of public interest as their importance justifies. These principles are in line with the strong convictions of leading editors that their papers must be positive forces in industry and not merely recorders of what has taken place. They are an expression of the realization that the occupancy of a vantage point from which the industrial developments can be viewed in perspective, places on the shoulders of the editors a weight of responsibility for telling their readers what they see. The fact that they reach large numbers of readers who place implicit confidence in what they say gives these editors an influence which they should use in the correction of wrong tendencies and the development of correct ones.

In these "Standards" of the editorial code there is the implication that a paper which is to succeed in this field must be one which takes the initiative, and it is a fact that some of the good things that have been done in recent years in industry can be credited in large part to the efforts of the industrial press editors.

The last "Standard" in the New York editors' code has to do with the editorial interrelations of business papers. It simply illustrates the principle of the square deal as applied to this department, by insisting that borrowed articles shall be credited to the original source and that unfair competition shall be avoided.

The brevity and simplicity of this New York code are in marked contrast to the excellent but elaborate code adopted a few weeks ago by the Oregon State Editorial Association,⁵ which is said to have hit what is probably the highest note that has been sounded in American journalism.

⁴ Reprinted in full on page 296.

⁵ Reprinted in full, page 283.

This code is evidence that newspapermen are striving along the same general directions of ethical progress as the industrial paper editors. The Oregon Code covers the following characteristics of good journalism: sincerity, truth, care, competency, thoroughness, justice, mercy, kindness, moderation, conservatism, proportion, public service and social policy. The words listed epitomize the code, which has within it the whole philosophy of the profession, but which needs to be accompanied by a simplified version that can be read quickly and readily committed to memory.

ENFORCEMENT OF CODES FOR INDUSTRIAL PUBLISHING

Before closing, a word regarding the enforcement of the codes of ethics in industrial publishing seems needed to round out the subject. These codes are not police codes, as was pointed out earlier. However, as acceptance of them is a condition of membership in associations of industrial publishers, some way of rendering them effective in accomplishing their purpose is necessary.

The Associated Business Papers, Incorporated, has a Committee on Trade Practices, which receives and acts upon complaints of code violations. The causes of these complaints, however, can usually be removed by means of informal conferences under the auspices of the association's officers. The association also has a Committee on Standardization, which is endeavoring to outline practices in accordance with the code where questions arise affecting groups of papers. Further, the publications of the members are examined from time to time by a Committee of Editors, to detect violations of the code. The carrying out of all of this work is, of course, simplified by the watchfulness of competing papers

with regard to each other's practices.

But, undoubtedly, the strongest influence in causing the business papers to adhere to the code, aside from their inherent desire to do so, is that their membership in the association publicly commits them to such adherence. When a paper is accepted for membership, it prints a full-page statement to this effect and includes the "Standards of Practice," so that there may be no doubt as to what the paper has undertaken to do. Moreover, to be admitted at all, a paper must already have established a reputation for fair dealing.

The New York Business Publishers' Association also has a committee to consider complaints of violation of their editorial code. This committee at present is not taking the initiative in the matter but stands ready to exert its influence to remedy any conditions which seem to justify such complaints.

CONCLUSION

The fact that the business paper publishers and editors, as well as the newspaper publishers and editors, are codifying the ethics of their business and profession indicates that this business and this profession have reached a state of development where there is a wealth of experience to be conserved and given tangibility. Only thus are creeds formulated, and a code of ethics is essentially a creed.

Coming back to the "Standards of Practice" of the Associated Business Papers, Incorporated, it may be well to point out that these serve several practical ends. They enable the publisher of the weak paper to determine wherein the weakness lies and to eliminate it, if this is possible. They stimulate the publisher of the strong paper to analyze his practices in order to detect the faults which prevent it from being even stronger. They safeguard all publishers against demands for

special privileges in their papers and enable them to explain to the subscriber and the advertiser who do not understand the fundamentals of industrial publishing just why their requests cannot be granted. In addition, they have

an educational mission to the young people coming up in the business, who need to know why some practices are followed and others are frowned upon in the publishing houses with which they are connected.

Ethics of Accountancy

By EDWARD P. MOXEY, JR., Ph.D., C.P.A.

Professor of Accounting, University of Pennsylvania

THE subject of ethics for the accountant is one which has engaged the attention of the members of that profession for quite a number of years. In fact, the subject was one of those presented before the Congress of Accountants, meeting at St. Louis in September, 1904. Prior to that time, however, definite rules of professional conduct had been formulated by the accounting societies of England for their members. In this connection it is interesting to note that in the latter part of 1905 a bill was introduced into Parliament by the Government of Tasmania for the regulation of the profession of accountancy in that colony. This bill made mention specifically of certain actions on the part of accountants which were to be regarded as unprofessional, and the practice of which should render them liable to fine, suspension or expulsion.

At the Convention of the American Association of Public Accountants, held at St. Paul, Minnesota, in October, 1907, Mr. J. E. Sterrett, C.P.A., presented a paper on "Professional Ethics" which is the standard treatise on that subject today. This paper was characterized at that time by Mr. Robert H. Montgomery, C.P.A., as one "which bids fair to become a classic," and this prophecy has indeed been amply fulfilled. Mr. Sterrett called attention to the fact that the older professions of law and medicine had even at that time (1907) made considerable progress in the development of systems of professional ethics, and called attention also to the work being accomplished along that line by the American Institute of Electrical

Engineers. In measuring the distinction between the accountant as a member of one of the newer professions, as contrasted with the lawyer or physician, Mr. Sterrett stated:

A lawyer's real opinion of another lawyer, or that of one physician concerning another, is usually a much more accurate judgment of the man's character and ability than is indicated by the reputation which he bears in the community at large. It may be that the opinion of the public and that of those who know the man from the inside, as it were, will coincide. This is likely to be the case with men of good ability and fine character, but the sham and the trickster are likely to be weighed and labeled by their professional brethren long before their real character is discovered by outsiders.

Under ordinary circumstances regard for the good name of his profession seals the lips of the professional man about matters concerning others in his own profession. The physician considers it quite unethical to pass harsh judgment upon his brother physician, except under the most urgent conditions. As accountants endeavoring to build up professional ideals, we should feel that the good name of our profession requires us to avoid all needless reference to the weaknesses or imperfections of other accountants.

While since that time there have been more or less serious infringements of the rules of ethics as laid down for the guidance of accountants, yet these have been dealt with fairly and impartially by committees on professional conduct of the American Association of Public Accountants and of its successor, the American Institute of Accountants. The work of these committees has always tended to-

wards the improvement and development of the profession, to the end that there shall be a recognition on the part of its practitioners as well as on the part of the general public, that all who are its members not only are those of high professional attainment, but those in whom the moral ideal exists in more than name only.

Mr. John Alexander Cooper, C.P.A., also presented, at this same convention, an excellent paper on the same subject, in which he divided his remarks under the following headings:

First—the elemental reasons that justify the claim that accountancy is a profession and all that the word implies.

Second—the aims and ultimate goal for those engaged in the practice of accountancy.

Third—a statement of a few classified and tersely expressed rules, that may form a proper basis for the guidance of accountants in practice.

In defining a profession, Mr. Cooper called attention to the dictionary definition of the term: "The calling or occupation which one professes to understand or follow; a vocation in which a professed knowledge of some department of science or learning is used by its practical application to the affairs of others, either in advising, guiding or teaching them, or in serving their interests or welfare in the practice of an art founded on it": or, to give the same thought more concisely, "Professed attainments in special knowledge, as distinguished from mere skill." He sees the services performed by the accountant as falling within the scope of the above definitions, and concludes that those who engage in this practice should "promulgate and maintain at all times, and that inflexibly, those rules of conduct which are known to all professional men of lofty instincts as the keystone that upholds the arch of public confidence." He further continues:

There is no profession, not excepting that of the ministry or of the law, in which it is more imperative that the practitioner be governed by the highest code of morality, than that of public accounting. Great as may be the influence which our profession can and does exercise upon business affairs, it is only by strict observance of ethical rules and right conduct that we can hope to pay the debt we all owe to such profession by uplifting and maintaining the highest standard, thereby bequeathing to our successors a calling placed upon a higher plane than when we first embraced it. It rests largely with this generation of the guild, who can, many of them, recall the inception of public auditing and accounting as it is now recognized, to lay the foundation of a noble profession that may justly be called the right hand of the law, or on the other hand, so bear themselves that this proud opportunity will be lost and our term of stewardship wasted.

The rules of conduct as he summarizes them are expressed as follows under the several headings indicated:

Service

1. To certify to statements, exhibits, schedules or other form of accountancy work, the auditing or preparation of which was not carried on entirely under the supervision of himself, a member of his firm, or one of the staff, is wrong.

2. The use of a practitioner's name in professional work by others than partners or employes is wrong in that it implies deception.

3. To perform accountancy work payment for which is by arrangement upon the contingency of the result of litigation or other form of adjustment is unprofessional.

4. The payment of a commission, brokerage or other form of inducement to the laity from professional fees is wrong.

5. The acceptance of any part of the fees of a lawyer or any commercial brokerage, bonus or commission as an

incident arising out of a practitioner's service is wrong.

6. Active interest in a commercial enterprise while practicing as a public accountant is to be avoided as incompatible with strict ethical principle.

7. The practitioner should, wherever possible, avoid acting as a trustee of special funds or pools as an incident of his calling.

8. A practitioner should avoid serving as a director in corporations in which he is professionally employed.

Clients

1. Upon engagement a practitioner is in duty bound to tell his client of all foreknowledge he may have had touching the matter under consideration.

2. Personal responsibility is a fundamental rule of the profession. A practitioner cannot screen himself from the specific acts or laches of his employes; the responsibilities are his and those of his firm.

3. Information acquired in the course of service is privileged and inviolable. Abuse thereof to the detriment of a former client renders a member subject to the severest discipline.

4. Efforts that tend to invite or encourage legal contest, or foster further employment by neglect, manipulation or unfinished service, should be severely dealt with; it is, in fact, barratry.

5. To recommend or advise clients to a measure or course of procedure that may even indirectly give the practitioner a personal advantage must be considered as flagrant professional infidelity and misconduct. It is "maintenance," and is punishable as such at common law.

Inter-Professional

1. Depreciation of opponents in contested matters is unprofessional and ethically wrong.

2. Acceptance of an appointment from which a colleague has withdrawn from conscientious motives, without previously making direct inquiry of such colleague as to the conditions, is professional discourtesy.

3. Canvassing the clients of a colleague for business is unprofessional.

4. To recognize or affiliate with a society that in its charter title assumes the words "Certified Public Accountant," without warrant of law as to its membership, is wrong, and gives countenance to an implied fraud.

Publicity

1. No professional accountant should advertise or display his talents as a merchant does his wares.

2. Professional cards should show in plain inconspicuous type the name, occupation, and office address. No strained effect is consistent or dignified.

3. The same form of card may be used in publications of a recognized standard, such as technical magazines, law periodicals, etc.

4. It is not good professional form to solicit business through trade journals, flashy publications, programs, or the daily press, especially under a pseudonym or publisher's index mark.

5. The use of the public press in discussions or essays on matters of technical or general interest is legitimate.

6. The use of initials or other insignia as an affix to a practitioner's name in his business advertisements other than such as is recognized by statutory enactment in the United States or is authoritatively recognized in other countries is unprofessional.

Corporations

1. No member should conceal his personality under a corporate name, either actual or fictitious.

2. The skill and knowledge of the

profession is individual, and cannot be transferred to a corporation, the accruing goodwill is otherwise lost.

3. Success in any professional career is a matter of personality.

4. A corporation *per se* cannot make an audit which in the full intent of the service is a judicial function.

5. A corporation is without honor, which is the keystone of the profession.

6. Directors cannot direct in a profession of which they are not members. It is a prostitution of the financial standing of the directors and stockholders, leading to unfair competition and prejudiced decisions.

7. The ultimate profit to the lay stockholder or director, whether expressed tangibly or otherwise, is an illegitimate gain or advantage which the profession cannot countenance.

8. In the case of legal liability as the result of negligence or criminal perversion of logical facts the ultimate responsibility rests with the practitioner, notwithstanding the financial support and control of outsiders.

9. Assurance of secrecy in affairs of clients of such corporations cannot be taken seriously.

10. The profession needs no control or regulation from the laity; it is not an industry.

The work of the Convention of 1907, in which the subject of professional ethics was crystallized, is set forth in Articles VII and VIII of the by-laws of the Association which were amended to read as follows:

ARTICLE VII

SUSPENSION AND EXPULSION

Section 1. A state or district society, or any member-at-large failing to pay the annual dues, or any subscription, assessment, or other sum owing by them to the association, within five months after such debt has become due

shall automatically cease to be a member of this association.

Sec. 2. A state or district society renders itself liable to be expelled from the association or to be suspended for a term not exceeding two years by resolution of the board of trustees sitting as a trial board, if, after election to membership, it (a) lowers its standards of admission to membership; (b) fails to maintain its organization; or (c) refuses or neglects to give effect to any decision of this association, of the board of trustees or of the committee on arbitration.

Sec. 3. A member renders himself liable to be expelled from the association or to be suspended for a term not exceeding two years by resolution of the board of trustees sitting as a trial board, if (a) he infringes any part of the rules of conduct of the association; (b) is convicted of felony or misdemeanor; (c) is finally declared by a court of competent jurisdiction to have committed any fraud, (d) is held by the board of trustees on the written complaint of any person aggrieved, whether a member or not, to have been guilty of any act or default discreditable to the profession, or (e) is declared by any competent court or commission to be insane or otherwise incompetent.

ARTICLE VIII

TRIAL BOARD

Section 1. For the purpose of adjudicating complaints or charges against members of the association as provided in Article VII the board of trustees shall convene as a trial board.

Sec. 2. Due notice shall be mailed to the parties to the cause by the secretary at least thirty days prior to the proposed session.

Sec. 3. A three-fourths vote of those trustees present shall be necessary to a decision.

Sec. 4. The Board of Trustees (sitting as a trial board) may in the exercise of its discretion recall, rescind or modify any resolution for expulsion or suspension at a meeting similarly called and convened by a like majority vote as required in Section 3 of this article, provided that not less than three-fourths of the members constituting such board shall have been of the board that issued the decree then being reconsidered.

Sec. 5. Written notice of any resolution for expulsion or suspension shall forthwith be sent to the member affected thereby and to the secretary or secretaries of the state or district society or societies with which such member is affiliated or in which state he has his domicile or place of business.

These articles continued until the year 1916 substantially without change with the addition only of Section 6, which reads:

Sec. 6. No member shall take part in any effort to secure the enactment, alteration or amendment of any state or federal law affecting the profession without giving immediate notice thereof to the secretary of this association, who in turn shall at once advise the secretary of the state or district society concerned.

THE PRESENT CODE OF ETHICS FOR ACCOUNTANTS

In 1916 the American Association of Public Accountants was reorganized under the present title of the American Institute of Accountants. The Institute while not incorporating a code of ethics or rules of conduct in its constitution and by-laws, nevertheless formally adopted a set of rules of professional conduct, which in its present form is as follows:

(1) A firm or partnership, all the individual members of which are members of the Institute (or in part

members and in part associates, provided all the members of the firm are either members or associates), may describe itself as "Members of the American Institute of Accountants," but a firm or partnership, all the individual members of which are not members of the Institute (or in part members and in part associates), or an individual practising under a style denoting a partnership when in fact there be no partner or partners, or a corporation or an individual or individuals practising under a style denoting a corporate organization, shall not use the designation "Members (or Associates) of the American Institute of Accountants."

(2) The preparation and certification of exhibits, statements, schedules or other forms of accountancy work, containing an essential misstatement of fact or omission therefrom of such a fact as would amount to an essential misstatement or a failure to put prospective investors on notice in respect of an essential or material fact not specifically shown in the balance-sheet itself, shall be, *ipso facto*, cause for expulsion or for such other discipline as the Council may impose upon proper presentation of proof that such misstatement was either wilful or the result of such gross negligence as to be inexcusable.

(3) No member shall allow any person to practise in his name as a public accountant who is not a member of the Institute or in partnership with him or in his employ on a salary.

(4) No member shall directly or indirectly allow or agree to allow a commission, brokerage or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage or other participation for professional or commercial business turned over to

others as an incident of his services to clients.

(5) No member shall engage in any business or occupation conjointly with that of a public accountant, which in the opinion of the Executive Committee or of the Council is incompatible or inconsistent therewith.

(6) No member shall certify to any accounts, exhibits, statements, schedules or other forms of accountancy work which have not been verified entirely under the supervision of himself, a member of his firm, one of his staff, a member of this institute or a member of a similar association of good standing in foreign countries which has been approved by the Council.

(7) No member shall take part in any effort to secure the enactment or amendment of any state or federal law or of any regulation of any governmental or civic body, affecting the practice of the profession, without giving immediate notice thereof to the secretary of the institute, who in turn shall at once advise the Executive Committee or the Council.

(8) No member shall directly or indirectly solicit the clients or encroach upon the business of another member, but it is the right of any member to give proper service and advice to those asking such service or advice.

(9) For a period not exceeding two years after notice by the Committee on Ethical Publicity no member or associate shall be permitted to distribute circulars or other instruments of publicity without the consent and approval of said committee.

(10) No member shall directly or indirectly offer employment to an employe of a fellow member without first informing said fellow member of his intent. This rule shall not be construed so as to inhibit negotiations with any one who of his own initiative

or in response to public advertisement shall apply to a member for employment.

(11) No member shall render professional service, the anticipated fee for which shall be contingent upon his findings and results thereof.

A comparison of these rules with those appearing as part of the by-laws of the American Association of Public Accountants discloses a number of points of similarity. This is especially marked in the comparison of the third, fourth, fifth, sixth and seventh rules of professional conduct with rules one, two, three, four and six of those of professional ethics of the Association.

In the accountancy profession, as in the case of the older professions of law and medicine, there are those who do not adhere strictly to the rules of conduct laid down for their guidance. Mr. Robert H. Montgomery in the latest revision of his book, *Auditing Theory and Practice* after calling attention to the rules of the American Institute as above set forth, states that "the student of accounting and the young practitioner should familiarize themselves with these recommendations and keep informed regarding the development of rules of ethics of the profession." At the Convention of the American Institute of Accountants, held in Washington in September, 1921, considerable discussion was had on the subject of professional publicity through means which were characterized as unprofessional. Mr. Montgomery on this point, while he does not condone the violations of those rules which are intended to discourage advertising or other forms of solicitation, yet speaks of them as violations of good taste only, and in no wise to be compared with the infractions of the more important rules dealing with the relationship of the accountant to his

client and to the public. It suggests as a preventative of such infractions, the necessity of emphasizing and of developing to the highest degree the feeling of moral responsibility on the part of accountants which in the certificates granted by many of the states to the qualified candidate, is placed above the fact that such an one has passed a satisfactory examination.

The Profession of Commerce in the Making

By F. M. FEIKER

Vice-President of the McGraw Hill Company, Inc. and sometime Assistant to the Secretary of Commerce

THERE are distinct indications today of forces at work in business life which can recreate the purposes of commerce and set high standards for the conduct of business not only for America but for the world. In hundreds of meetings, across scores of luncheon tables, men are discussing the necessity for a new industrial leadership and the opportunity for that industrial leadership in America. The fine thing about these discussions by thoughtful men is that each sees in his own profession that opportunity for leadership. The lawyer, the engineer, the economist, the statesman, the industrialist, the banker, the manufacturer, the merchant and the salesman, men in all fields of professional and commercial activity are thinking in new terms of their work, and each in a different way is giving expression to a universal desire. Each is really trying to answer the question, old as civilization, which was phrased by Dean Kimball of Cornell when he said that we are attempting to solve the problem, "What is mine and what is thine?"

America above all other nations offers the most fruitful opportunity for a new leadership. Our social structure is not laid-up in a stratification of classes. It is still possible for a newspaper publisher to become President of the United States and for a steel mill hand to head the works. We are, as Americans, idealists. Business to us is an end in itself and not merely a means to an end. The novelist in interpreting the social responsibilities of industry, usually to its disparagement, is prone to overlook

this fact. There is something truly American in the possibility that a man, only twenty years old, may come to our shores from Egypt and in ten years become owner of a factory and two retail stores.

The ferment for a new leadership of industry may all be considered from the viewpoint of the professionalizing of commerce. We are, as a nation, strong individualists. As Secretary of Commerce Hoover has put it, we have a very high individual efficiency in industry, but a very low collective efficiency. Creative business men are seeking for new measures of value. Service as a basis for profit-making is coming to be recognized as the true motive for creative industry. Business men are establishing codes of practice in all lines of industrial activity. Men in business are as human as artists or lawyers or chemists, and the ethical standards of men of business are no higher and no lower than the ethical standards of our people as a whole. What is apparent in industry, however, is a conscious effort, a definite attempt to make its standards known, to put commerce on a high plane, and to base creative industry on high ethical principles.

It is my purpose in the brief span of this article simply to outline what seem to be very definite indicators of the coming of a new leadership in industry. The first factor is youth. Broadly speaking, our industrial and commercial activities date from the Civil War. Many businesses were founded during that war and with the passing of years these early leaders and

their immediate successors are going out of business. This means that a large group of men are taking up the reins of industry with a fresh viewpoint on their responsibilities as leaders. As a result what may be called a second-generation viewpoint has come to industry as a natural step in American industrial development. The men forming this new group, who might be listed by the hundreds, are the kind of men who made it possible for H. G. Wells to sell in America 250,000 copies of his book, the *Outline of History*, an unprecedented sale for a book of History, to be accounted for largely because Wells has fired the imagination of America and has shown the relation of America to the world in a new perspective. In the same way there exists in the American business consciousness a great reservoir of idealism and creative thought which may be mobilized in the direction of professional thinking about industry.

THE PROFESSIONAL CHARACTER OF THE TRADE ASSOCIATION

At a dinner during the Limitation of Arms Conference in Washington, a witty Englishman referred to America as the only nation where a dry banquet could be held with any enthusiasm. In his humorous comment on our national predilection for being "joiners," he put his finger on a mechanism in American industry, the association, which is one of the great forces to be put to work in professionalizing business, and which in many of its activities has indicated a recognition of this opportunity. The trade association movement is a conscious effort to secure collective action on the part of all classes of men in industry. There is no exact count of the number of trade associations, because there are scores of local associations in themselves unaffiliated as national organizations.

But there are probably fifteen hundred technical societies, manufacturers' associations, jobbers' associations and retailers' associations of national character. These various associations and societies are organized sometimes on the basis of professional groups, sometimes on the basis of commodities, sometimes on the basis of trade relations. We have as a result a vast number of collective units in industry, functioning on their own problems, and, in some instances, functioning on one another's problems. Many of these associations are grouped and operate in a national way through such organizations as the United States Chamber of Commerce, the Federated American Engineering Societies, the National Association of Manufacturers, and so on.

No attempt can be made to discuss the minutiae of the work of these associations. There are thirty-five or forty functional activities which many of them carry on, but for the purposes of this article the interesting fact stands out that sooner or later such associations become professionally conscious, and as soon as they become professionally conscious, they set up for the guidance of each member standards of practice or codes of ethics which, broadly speaking, constitute a great structure, with the service motive as the standard for the conduct of the particular association or organization.

In emphasizing this phase of the development of the association there is no desire to sentimentalize about it. One might sentimentally consider that the fabric of industry is a cloth of gold, that all business is conducted on a high ethical plane. This is obviously not true. But the point to emphasize is the conscious effort that is being made constantly to set up standards of practice which in themselves have an ethical quality—golden threads in our national industrial fabric.

Ethical structures in business are thus being reared through the collective action of trade associations and of semi-professional business organizations of one type or another. It is a trite saying among business competitors that when they meet each other for the first time through the medium of a trade association, the one discovers that the other no longer has "horns." Once having established a mutual respect for and sympathy with each other, it is a simple matter to take the next step and devolve a basis for competitive procedure which eliminates the waste to the consumer of the cut-throat competition that tears down creative enterprise and takes business scalps in a truly savage fashion.

Many semi-business organizations have put forces at work also in the direction of establishing practical codes of ethics for commercial procedure. The order of Rotarians is an outstanding example of such a body.

A second great force at work in the professionalizing of industry is that of specialized education in the technical and business schools of the country. Each year men go into business from college. In the specialized schools, particularly, more and more attention is being given to bringing before the student the relation of his specialized knowledge to the social and industrial problems that lie in the world outside his college walls.

THE NEW TECHNIQUE OF MANAGEMENT

The professionalizing of the technique of management is an interesting illustration of a distinct educational movement in the field of manufacturing. Management has gradually emerged through a period of years until it has been made a function in industry. It has become recognized pedagogically as the creative function of relating the

capital invested in an enterprise, the men who work in the enterprise, the machinery, and the materials all together in order to turn out a manufactured product. Since the Civil War, factory production in America has emerged from the handicraft stage and has come to be mass production, involving the handling of great groups of men, of huge quantities of materials, of complicated processes of machinery, and of money representing capital investment. Out of this industrial movement have come the systematization of routine, the scientific study of processes and methods, and, more recently, the conception that the human relations of men in industry are susceptible of the same kind of analysis and thoughtful consideration in the mass.

Ten years ago I happened to be associated in a small way with the organization of one of the courses in industrial management of the Harvard Graduate School of Business Administration. I believe there were ten graduates the second year this school was established. In 1921 there were one hundred and eighty. This increase from ten to one hundred and eighty is another barometer of the development of the profession of management as a function in industry.

Again, in the field of distribution there is gradually emerging a type of thinking in which the technique is professional and not greatly different in character from that in production—the technique of the commercial economist. There is a welter of ideas in regard to "demand creation" and "demand supply," which are the academic expressions for selling and buying. The analysis of the movement of trade, the collection of the statistical facts with regard to trade, the attempt to visualize through statistics the rise and fall of business, all are indications of another attempt to introduce the pro-

fessional viewpoint into industry. The "merchandising man" of the great department store, the advertising agent who is a counselor for his client in the analysis of the distribution of his products, both are energized in their work by a new conception of the service value of their particular businesses and of the businesses which they serve. There is a possibility of developing an entrepreneur of service.

INDUSTRIAL JOURNALISM AS A PROFESSIONALIZING FORCE

Industrial journalism at its best is a third great force in the development of the professional viewpoint in industry. The industrial press is a great force for the practical education of masses of men. There is a business paper for almost every trade and profession. Editors of business papers who are leaders in thought find the opportunity to express that leadership in terms other than mere reporting of the news of industry. The responsibility of the business press goes deeper than the gathering of news. It does no good to arouse either the individual or the nation to action unless there is also suggested a plan for turning this action into practice. This is an educational axiom, and the educational force of the business press offers an opportunity for leadership in the professionalizing of industry which is second to no other in raising the standards of commercial practice.

The leading editors of the business press are both a part of their industry and spectators on the side line looking over industry. Because of their exceptional personal and intimate relations with leaders of industry they help to point out and chart the way it must follow. Moreover, they have a sense of social responsibility to the public, a responsibility which in itself is a professional conception of their own work.

Abraham Lincoln believed in the people. Opinion in this country has always been made by the people. Industrial opinion is made by a comparatively small percentage of the hundred millions in the country. The business press as a whole is the voice of industrial opinion, and a responsible business press is one of the greatest forces for practical accomplishment of high ideals in the world today.

The editors of the business papers have long been conscious of this responsibility, and some five years ago organized an Editorial Conference which provides a medium for the discussion of the common problems of industry and for the forwarding of its general plans. The editors have established detailed standards of practice for the conduct of industrial journalism, and during the last year a course in industrial publishing has been assembled and presented to classes formed by members of the New York Business Publishers' Association. This course is based on high ideals of service to industry.

DEVELOPMENTS IN THE DEPARTMENT OF COMMERCE

A new motivating force for establishing higher commercial standards in industry on the basis of fact has followed the appointment by President Harding of Herbert Hoover as Secretary of Commerce of the United States. Mr. Hoover has set for the Department of Commerce a high standard of service as a measure of its relation to industry, and in setting that standard of service has already made possible the coördination of many of the constructive purposes of the trade association and given new strength of purpose to the professional character of such associations.

This basis for professional conduct of associations and of the business

which they represent is the very practical truth that business policies, both for the individual industries and for our national economic program, should be founded upon fact and not upon opinions. As a basis for establishing these professional facts with regard to industry, the Department of Commerce has been reorganized with special reference to the collection of statistics, the promotion of foreign trade, and the carrying forward of programs for the elimination of waste in industry through the elimination of excess variety in manufactured products and the simplification and standardization of sizes and parts. Contact committees have been formed in more than one hundred and fifty trade associations and technical bodies. These contact committees are at work on programs which provide a basis for a common understanding between industries and the opportunity for a wider education as to the possibilities of collective action in industry.

The impulse for this development of the Department of Commerce comes out of industry itself, and not from the Department into industry, and is another indication of the movement in business which I have called the "professionalizing of industry."

THE INTEGRITY OF AMERICAN BUSINESS

Business needs no apologies. American business at heart is sound in the same degree and for the same reasons that the nation itself is sound. Individually, American business men set high standards for themselves in a very practical way. Specifically, if you ask any so-called successful business man what he looks for first in hiring his associates, he will either answer directly in terms of character or picture his speci-

fications in such a way that character is very evidently the thing he is trying to get at. That the essential quality of individual integrity and character is the basis for creative business enterprise is shown by the fact that once a man stumbles in full view of the public, the whole structure of business he may have reared tumbles to the ground because he will no longer be trusted. There are legendary tales of so-called big business men whose "private morals and personal ethics were their own business," but we have had many illustrations of the fact that masterfulness in business can be attained and held only by the sweetness and soundness of personal morality.

It is the collective expression of high ethical standards for the individual which is the foundation for the professional standards of men acting in groups. The structure of business itself rests on credit, which is nothing in the world but a collective appreciation of character.

American industry of the future, with a new vision of service expressed in the practical terms of the professionalizing of industry, is the hope of a reconstructed social and industrial fabric. The United States of America may leave an impression on civilization different in character from that made by any other nation and moving the world forward in a way that no other nation has done. America's expression in civilization must be essentially commercial. We are a commercial nation. But there is nothing cheap in this conception. We have high ideals for commerce. We are creators and dreamers. Rome left its imprint on civilization in war; Greece, in art. America can leave its imprint in the new sense of service which finds expression through commerce and industry.

The Canons of Commercial Ethics

By J. H. TREGOE

Secretary-Treasurer, National Association of Credit Men

CAVEAT EMPTOR as a principle of merchandising grew from the nature of trading in its early stages. When the seller of commodities displayed them at fairs held in certain countries and at certain periods and the buyers congregated at these fairs for the purpose of bargaining and purchasing, the touch between the two, though immediate in one sense, was in reality very remote. The buyers and sellers might meet once and never again.

The proper principle, therefore, for the buyer to follow was the type of caution expressed in *caveat emptor*. Buying and selling was largely regarded as a field where shrewd and sharp practices ruled, and where the one most skilled in such practices reaped the largest material rewards. The relationship between buyer and seller was a cold one and a community of interests between them was not felt to exist.

The industrial revolution brought with it a change in the relationship between buyer and seller. Manufacturing on a large scale resulted in distribution on a large scale. With the geographical separation of seller and buyer that followed this large-scale manufacturing and large-scale distribution, commerce done on the principle of *caveat emptor* was on a precarious basis. Selling and buying needed a confidence and warmth which the principle of *caveat emptor* did not supply. Goods could not move freely if the buyer had continually "to beware." The compulsion was laid on the seller to make his goods of such quality as to remove the suspicion of the buyer and to insure his confidence in the goods. Thus, there developed the trade mark that

today extends not only to individual sellers, but to whole communities and countries.

With large-scale manufacturing and distribution came the increased use of credit. Since credit is based on confidence, commerce based on credit could expand only as those engaged in it, both buyers and sellers, cooperated with one another to insure mutual confidence.

Credit is so directly related to commerce and is so susceptible of misuse and flagrant abuses that the National Association of Credit Men some years ago became convinced that certain ethical principles should be laid down for the control of commerce, and from year to year they have formulated canons of commercial ethics. These canons have now reached twelve in number. They are as follows:

CANONS OF COMMERCIAL ETHICS

Canon No. 1.—It is improper for a business man to participate with a lawyer in the doing of an act that would be improper and unprofessional for the lawyer to do.

Canon No. 2.—It undermines the integrity of business for business men to support lawyers who indulge in unprofessional practices. The lawyer who will do wrong things for one business man injures ALL business men. He not only injures his profession, but he is a menace to the business community.

Canon No. 3.—To punish and expose the guilty is one thing; to help the unfortunate but innocent debtor to rise is another; but both duties are equally important, for both duties make for a higher moral standard of action on the part of business men.

Canon No. 4.—In times of trouble, the unfortunate business man has the right to appeal to his fellow business men for advice and assistance. Selfish interests must be

subordinated in such a case, and all must coöperate to help. If the debtor's assets are to be administered, all creditors must join in coöperating. To fail in such a case is to fall below the best standards of commercial and association ethics.

Canon No. 5.—The pledged word upon which another relies is sacred among business gentlemen. The order for a bill of goods upon which the seller relies is the pledged word of a business man. No gentleman in business, without a reason that should be satisfactory to the seller, may cancel an order. He would not ask to be relieved of his obligation upon a note or check, and his contracts of purchase and sale should be equally binding. The technical defense that he has not bound himself in writing may avail him in the courts of law, but not of business ethics.

Canon No. 6.—Terms of sale as a part of a contract touching both net and discount maturity, are for buyer and seller alike binding and mutual, unless modified by previous or concurrent mutual agreement.

No business gentleman may, in the performance of his contracts, seek small or petty advantage, or throw the burden of a mistake in judgment upon another, but must keep his word as good as his bond, and when entering into a contract of sale faithfully observe the terms, and thus redeem the assumed promise.

Canon No. 7.—It is always improper for one occupying a fiduciary position to make a secret personal profit therefrom. A member of a creditors' committee, for example, may not, without freely disclosing the fact, receive any compensation for his services, for such practices lead to secret preferences and tend to destroy the confidence of business men in each other. "No man can serve two masters."

Canon No. 8.—The stability of commerce and credits rests upon honorable methods and practices of business men in their relations with one another, and it is improper for one creditor to obtain or seek to obtain a preference over other creditors of equal standing from the estate of an insolvent debtor, for in so doing he takes, or endeavors to take, more than his just proportion of the estate and therefore what properly belongs to others.

Canon No. 9.—Coöperation is unity of action, though not necessarily unity of thought. When the administration of an insolvent estate is undertaken by the creditors through friendly instrumentalities, or when, after critical investigation, creditors representing a large majority of the indebtedness advise the acceptance of a composition as representing a fair and just distribution of a debtor's assets, it is uncoöperative and commercially unethical for a creditor to refuse the friendly instrument or the composition arbitrarily and force thereby a form of administration that will be prejudicial and expensive to the interests of everyone concerned.

Canon No. 10.—Our credit system is founded on principles, the underlying elements of which are coöperation and reciprocity in interchange. When ledger and credit information is sought and given in a spirit inspiring mutual confidence, a potent factor for safety in credit granting has been set at work.

The interchange of ledger and credit information cannot fulfill its best and most important purposes unless guarded with equal sense of fairness and honesty by both the credit department that asks for the information and the credit department that furnishes it.

Recognizing that the conferring of a benefit creates an obligation, reciprocity in the interchange of credit information is an indispensable foundation principle; and a credit department seeking information should reciprocate with a statement of its own experience in the expectation of getting the information sought; and a credit department of which information is sought should respond fairly and accurately because the fundamentals of credit interchange have been observed in the manner the request was made of it.

Failure to observe and defend this principle would tend to defeat the binding together of credit grantors for skilful work—a vital principle of the credit system—and make the offending department guilty of an unfair and unethical act.

Canon No. 11.—The foundation principle of our credit structure—coöperation—should dominate and control whenever the financial affairs of a debtor become insol-

vent or involved, that equality thereby may be assured to the creditors themselves and justice to the debtor.

The control of any lesser principle produces waste, diffusion of effort and a sacrifice of interests, material and moral, with a separation of creditor and debtor that is offensive to the best laws of credit procedure.

Coöperation and unity save, construct and prevent; therefore, individual action pursued regardless of other interests in such situations, whether secretly or openly expressed by either creditor or debtor, is unwise and unethical.

Canon No. 12.—The healthy expansion of commerce and credits, with due regard to the preservation of their stability and healthfulness, demands an exact honesty in all of the methods and practices upon which they are founded. Advertising is an important feature in business building; it should represent and never misrepresent; it should win reliance and never cover deceit; it should be the true expression of the commodity or the service offered. It must be deemed, therefore, highly improper and unethical for advertisements to be so phrased or expressed as not to present real facts, and either directly or by implication to mislead or deceive. In this department the finest sense of honesty and fairness must be preserved, and the right relations of men with one another in commerce and credits clearly preserved.

These canons are largely self-explanatory to anyone familiar with business, but a regrouping of them with some comments may serve to bring out the standing evils against which they are directed.

The first two canons bring out strongly the point that the business man should not participate with a lawyer in any act which it is improper and unprofessional for the lawyer to perform. It is emphasized in these two canons that the integrity of business is undermined by improper practices of this type and that the lawyer who will do for one business man an im-

proper thing will do it for all business men.

Canons 3 and 4 are designed to remove a lack of coöperation and organized effort in the prosecution of commercial crime and in the helping of worthy debtors. To those familiar with the dangers to business that result from lack of coöperation among creditors in dealing with their debtors these canons need no further comment.

Canons 5 and 6 plead for the sanctity of contractual obligations and condemn the violation of them. Cancellations, the taking of unearned discounts and other violations of contract come under this head. The fundamental element of all trade is the contract which should be equally binding both upon the seller and the buyer. Briefly stated, the American business man should deliver what he sells and take what he buys.

Canons 7, 8, 9 and 11 are appeals for further coöperation among creditors. They condemn the violations of trust, the existence of secret preferences by which certain creditors obtain advantages over others. The observance of these canons make for stability of business and for the insurance of justice to both creditors and debtors.

Canon 10 is an appeal for the observance of confidence in connection with the interchange of ledger and credit experience. The stability of credit depends upon the widest coöperation in the giving of credit experience. A reciprocal obligation exists between creditors in the giving of this experience and the absence of such coöperation can only result in harm to credit and to business.

Canon 12 is an appeal for honest advertising. The relation of advertising to credit may seem at first glance remote, but a consideration of this relationship shows how closely advertising and credit are linked. Confidence, which is the basis of credit, is de-

stroyed if commodities fail to measure up to the representations of them.

That the stability of commerce rests upon the observance of such canons is apparent to anyone with business experience. The promulgation of them

and their backing by the organized power of the credit men of the National Association cannot but result in higher standards of business practice and thus in a service not only to business but to the whole social community.

History and Present Status of the "Truth-in-Advertising" Movement

As Carried on by the Vigilance Committee of the
Associated Advertising Clubs of the World

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AN intelligent appreciation of the creative processes at work in modern advertising efforts to establish practices of truth and integrity in relations between producer, seller and the public, necessitates a review of the different stages from the non-organized effort to the present-day organized movement known as "Truth-in-Advertising." The stages are three in number: First, the unscientific day, before 1895, when fraudulent advertising was everywhere countenanced, with occasional state laws passed in an attempt to get at flagrant violations; second, the semi-scientific period, from 1893 to 1911, when standards were in the making and when evils were being clearly defined; third, the beginning of a scientific period, from 1911 to the present, when the Associated Advertising Clubs succeeded in organizing and financing its Vigilance Committee with a definite program to encourage first and to compel afterwards—"Truth-in-Advertising."

The birth of "Truth-in-Advertising" can be clearly seen as a natural part of orderly evolution in the making of advertising history, when once our

modern concept of advertising is clearly defined. Let us review its significance. Advertising has rightly been called a business force. It is a force the dynamics of which, through the cumulative power of its organized ideas, nullifies the customs of ages and breaks down the barriers of individual habits of limited thinking. It works for the future and establishes concepts related to higher standards of living. It is at once destroyer and creator in the process of the ever-evolving new. Its constructive effort is to superimpose new conceptions of individual attainment and community desire. Advertising plays near the heart of humanity, for it touches the mainspring of individual ambition and group desire. It is one of the creative mechanisms of our day, involving individual and group aspirations. It is at once master and servant of those who wield its power. It is a master when it sets the energy impulse of man toward the realization of wishes, desires and wants. It is a servant of the individual advertiser when, through its form, it speaks the right word at the right time, in the right place, and

in the right mood. And it is at this particular juncture of advertising analysis and modern experience that the "Truth" concept was born.

Some business enterprises through opportunism involving unfair profits and deceptive practices, have shied at ethics and have been false and unfair in their advertising appeal. *Caveat emptor* might have been a necessary slogan involving the instinct of self-preservation when business was whim, caprice, childish wonder and greed; in other words, unscientific. But with the onrush of scientific thinking into the affairs of daily business, somehow conscience began to find its technique. To the wonder of the strong and more efficient, there began to dawn in their consciousness a conviction that modern business not only *might* but *must* become strong in its demands for truthfulness in advertising practices.

These first sentiments as a result of the previous "ait and mis:" conceptions of action for the suppression of fraudulent, misleading, exaggerated and indecent advertising, are aptly described by John Irving Romer in *Printers' Ink* of June 29 1893, as follows:

The only criticism of the Boston Convention that has been heard anywhere is that it did not present a definite plan for the elimination of objectionable forms of advertising. Critics said, and say today, "What does all this talk about a higher ethical tone in advertising amount to? How can the offenders be reached? 'Honest men will continue to be honest and dishonest men will continue to follow their devious methods, laughing in their sleeves at those who seek to accomplish reforms by mere preachments.

It is as if reformers went up and down the land denouncing burglary. You can get 99 per cent of the public to agree with you that burglary is a very wicked thing and should be suppressed. But the one per cent will break into your house at night

and walk off with your solid silver—that is, *unless there is a law which makes burglary a crime, and a police force that will enforce law.*

Can the power of the law be invoked to eradicate dishonest advertising? If so, can a police force be marshaled which will make the law effective?

Thus was sentiment beginning to gather in the year 1893. In reviewing the evolutionary processes involved in the establishment of higher and better practices in modern advertising, it is only right that we characterize the lack of faith on the part of our forefathers as due to their ignorance of the fructifying power of science to render a livelihood to an increasingly large number of people. It seems as if the modern tendency to establish relations based on the idea of honesty is because we are beginning to find productivity to be possible within the constitution of natural laws and sciences. These, working together render riches in abundance to those whose courage is maintained throughout the selling process.

Thus conscience and science become one in a healthy struggle to realize individual ambitions. That the type of thinking of the "pre-truth" days was childish and magical in its reaction to life can be readily appreciated by the following advertisements of the sixteenth century:

Loss of Memory, or Forgetfulness, certainly cured by a grateful electuary peculiarly adapted for that end; it strikes at the primary source, which few apprehend, of forgetfulness, makes the head clear and easy, the spirits free, active, and undisturbed, corroborates and revives all the noble faculties of the soul, such as thought, judgment, apprehension, reason and memory, which last in particular it so strengthens as to render that faculty exceeding quick and good beyond imagination; thereby enabling those whose memory was before almost totally lost, to remember the minutest circumstances of their affairs, etc.

to a wonder. Price 2s. 6d a pot. Sold only at Mr. Payne's, at the Angel and Crown, in St. Paul's Churchyard, with directions.

Since so many upstarts do daily publish one thing or other to counterfeit the original strops, for setting razors, penknives, lancets, etc., upon, and pretend them to be most excellent; the first author of the said strops, does hereby testify that all such sort of things are only made in imitation of the true ones which are permitted to be sold by no one but Mr. Shipton, at John's Coffee House, in Exchange Alley, as hath been often mentioned in the Gazettes, to prevent people being further imposed upon.

An opposition notice appeared shortly afterwards in the *Daily Courant* of January 11:

The right Venetian Strops, being the only fam'd ones made, as appears by the many thousands that have been sold, notwithstanding the many false shams and ridiculous pretences, as "original," etc., that are almost every day published to promote the sale of counterfeits, and to lessen the great and truly wonderful fame of the Venetian Strops, which are most certainly the best in the world, for they will give razors, penknives, lancets, etc., such an exquisite fine, smooth, sharp exact and durable edge, that the like was never known, which has been experienced by thousands of gentlemen in England, Scotland and Ireland. Are sold only at Mr. Allcraft's, a toy shop at the Blue Coat Boy, against the Royal Exchange, &c. &c.

An editor of one paper even in these earlier days must have had remorse of conscience as is indicated in the following:

Pray, mind the half sheet. Like lawyers, I take all courses. I may fairly; who likes not may stop here.

A second stage in the development of better advertising practices was an attempt in the year 1911 to discover whether or not the common law could be made to bring a violator to terms.

H. D. Nims in *Printers' Ink* of 1911 touches upon this aspect in the following excerpt:

At common law a civil action was possible against a person who deceived another by false or fraudulent statements, and in such an action, damages might be recovered representing the differences between the value of the thing actually sold in connection with the fraudulent statements and the value of what should have been sold had the representations been made in good faith. This civil action is of little value in preventing frauds of this kind, because of the necessity of proving this damage, and because oftentimes the damage on this basis would be very small. It would be quite possible to pass a statute which would compel the defendant, on judgment being obtained against him, to pay triple damages as is provided in the Sherman Act and even greater damages than this could probably be so authorized if advisable. It is doubtful, however, whether if such a remedy as this was created, it would be sufficiently useful to serve as a preventative of these fraudulent acts.

Turning to the criminal side of the common law, there appears to have been no indictable offense recognized by it which corresponds very accurately to the originating and publishing of a fraudulent advertisement. The nearest analogy to it is found in what the common law called a "cheat" which, according to East's *Pleas of the Crown*, Vol. 2, p. 818, consists in the fraudulent obtaining of the property of another by any deceitful and illegal practice or taken (short of felony) which affects or may affect the public.

A review of the laws of the common laws of United States pertaining to advertising resulted in the following:

COMMON LAW SUMMARIZED

It may be said that (1) there is nothing in the common law, or in these old English statutes which are a part of American common law, which would furnish an argument against enacting statutes making fraudulent advertising a crime; (2) that the common law and the English statutes

mentioned furnish, by analogy, ample argument for the contention that fraudulent advertising is a cheat or false pretense, and therefore should be regarded as a crime under the various state statutes prohibiting the use of false pretenses provided it results in definite injury to some person; (3) that there are statutes in most, if not all, of the states of the Union prohibiting the use of all false pretenses which result in actual injury; (4) that very few courts have passed on the question as to whether or not the use of a fraudulent advertisement is a crime under these statutes.

Experience, science and law finally forced recognition of three courses of procedure. Mr. Haase states them as follows:

Three courses are open to you in taking up this matter. First, you can recommend that these general laws regarding false pretenses be amended in each state in such way as may be necessary. Secondly, you can advocate in the various states that merchants of the Advertising Clubs do as is being done in Atlanta—sue and push test cases under the general false pretense statutes. Or, thirdly, you can advocate the passage in all of the states, of acts similar to the New York and Massachusetts statutes, both of which, it may be, can be somewhat improved upon.

The influence of *Printers' Ink* in its constant interest finally resulted in Mr. Nim's "Model Statute" based upon existing statutes in certain states, amplifying certain points which were considered advisable. This statute was then offered by *Printers' Ink* as a suggestion to the Associated Advertising Clubs of America whose combined influence has succeeded in establishing the "Model Statute" as law in twenty-three states. A definite course of action is now being planned to secure its passage in every state. Its form follows:

The Model Statute

Any person, firm, corporation or association who, with intent to sell or in any

wise dispose of merchandise, securities, service, or anything offered by such person, firm, corporation or association, directly or indirectly, to the public for sale or distribution, or with intent to increase the consumption thereof, or to induce the public in any manner to enter into any obligation relating thereto, or to acquire title thereto, or an interest therein, makes, publishes, disseminates, circulates, or places before the public, or causes, directly or indirectly to be made, published, disseminated, circulated or placed before the public, in this state, in a newspaper or other publication, or in the form of a book, notice, hand-bill, poster, bill, circular, pamphlet or letter, or in any other way, an advertisement of any sort regarding merchandise, securities, service, or anything so offered to the public, which advertisement contains any assertion, representation or statement of fact which is untrue, deceptive or misleading, shall be guilty of a misdemeanor.

To reinforce this law there has finally been evolved in advertising practice what is known as the "Truth-in-Advertising" Movement. It was initiated by the Associated Advertising Clubs of the World, which is what its name implies—a world-wide association of advertising clubs. The movement finds expression through a special department of the association, known as the National Vigilance Committee, and through Better Business Bureaus and Commissions, located in most of the principal cities of the United States.

"The National Vigilance Committee," as the plan is worked out, "concerns itself with abuses of national advertising, and also works in coöperation with the local Bureaus, which in turn, coöperate with each other, thus maintaining a nation-wide organization.

"The membership of a Bureau, which is by firm, includes newspapers and other publications, retailers, banks, investment bankers, advertising agencies, manufacturers, wholesalers, etc.

"Any local business house of good standing is eligible to membership.

Such membership carries the privilege of complaint against abuses of advertising, the right to receive all bulletins issued by the Bureau, the advantage of certain forms of confidential Bureau service, and, of course, a share in the credit for the accomplishments of the organization.

"Bureau work has two main divisions—Merchandise and Financial. The Merchandise Division directs its attention to abuses of advertising in such fields as department stores, men's and women's apparel, other retail groups, automotive and technical, medical and drug, food and beverages, etc. The Financial Division is concerned largely with questionable stock promotion schemes."

Better Business Bureaus are now in operation in thirty-two cities of the United States. The work of these bureaus is not only critical and condemnatory of bad practices but it is constructive as well. For instance, the Better Business Commission of the Cleveland Advertising Club offers recommendations as a guide to assist in avoiding advertising statements and practices that have a tendency to reduce consumer's confidence in all advertising.

The bureaus render definite forms of service. Statements of these services with typical applications of each are as follows:

1. *The Better Business Bureau protects the buying public against deception and possible fraud in advertising and merchandising by investigating and correcting wrong practices.*

Certain seasonable goods have often been priced at a stated figure a few weeks previous and later offered at a greatly reduced price. The former price is used in many instances as the value, when, in fact, the value of such an article has been greatly reduced on account of the season and other con-

ditions and such a statement would be more or less misleading.

2. *Persuades individual firms to discontinue unfair tactics that work to the disadvantage of competitors.*

Manufacturers have been known to bill goods to retailers with the misstatement that the goods were all wool. The retailer has in his turn sold them to the public as all wool. The court held that there was no defense. The retailer should have known whether or not they were all wool. The public has a right to look upon the retailer as an expert.

3. *Removes unjustified suspicion and misunderstanding between competitors by getting the facts regarding suspected advertising and merchandising practices and reporting upon their real character.*

The Federal Trade Commission, in conjunction with a Conference on Trade Practices of the Pyroxylin Plastic Industry, developed the following points concerning the branding and advertising of pyroxylin articles:

We are opposed to the use of the words "Ivory," "Shell," "Amber," "Jade," "Coral," etc., in any other than an *adjective* sense, and then only when coupled with the name of the material or some other qualifying term, such as *color*, *finish*, etc. Illustrative of the foregoing, the following, and similar terms, would be permissible: "Ivory Celluloid," "Ivory Pyralin," "Ivory Fibrelloid," "Ivory Viscoloid," "Ivory Zynolite," "Ivory Acwelite," etc., "Ivory Color Celluloid," etc., "Ivory Color Dressing Combs," "Ivory Finish Combs," "Imitation Ivory," "Imitation Shell," etc. The following and similar terms would be objectionable: "French Ivory," "Parisian Ivory," "Tortoise-Shell," "Tortoise-Shell Eyeglasses," "Ivory Combs," "Florentine Shell," "Ivory Toilet Sets," "Pyralin Ivory," "Jade Necklaces," "Coral Necklaces," "American Ivory," etc.

We are further opposed to the use of the words "French," "Parisian," or any other geographical designations in connection

with the material or article fabricated therefrom, unless they truly express the point of origin and are coupled with some other qualifying term, such as *color*, *finish*, etc. Under the foregoing, the terms "French Ivory," "Flórentine Shell," etc., would be objectionable, while "French Ivory Finish" would be permissible if the thing in question originated in France.

4. *Reduces the burden of unjustified public suspicion which may, through misunderstanding, rest upon the advertising or merchandising of any institution.*

The following circular of the Vigilance Committee evidences their watchfulness on this point.

"SELF-COLLECTION" LETTER SYSTEMS

It has been brought to our attention that a number of so-called collection agencies, systems, or associations are advertising in the "Salesmen Wanted" and "Business Opportunity" columns of newspapers and magazines. The following is a representative piece of their copy:

Agents—\$25 to \$100 per day—Salesmen selling absolute necessity to merchants and professional men. 525 per-cent profit. Big weekly repeater. To ambitious men and women this means \$10,000—\$50,000 yearly. Send dime to cover mailing. Outfit free.

The earning claims in the classified advertisements appear exaggerated and are objectionable in themselves, but a more serious consideration arises from the manner in which these systems operate.

The salesmen purchase the systems for prices ranging from one to two dollars and resell them to merchants for five or six dollars, thus pocketing an exorbitant profit on each transaction. We understand that the systems are composed of a series of collection letters for delinquent accounts. It is said that merchants fill in and mail the letters, making it appear that the communications come direct from the collection agency office, whereas the so-called agency has nothing to do with them after they are sold to the merchant. This is, of course, a misrepresentation of facts

and we believe savors of duress, besides appearing to be a species of false pretense. The Committee is of the opinion that it is not only a violation of the law, but that a debtor could set up a valid defense against the account if the matter was pressed to a suit.

Merchants desiring to protect the Good Will of their businesses should be warned against this questionable method of collecting delinquent accounts.

Publications are given these facts so they may be fully informed concerning a practice of confidence-destroying character.

NATIONAL VIGILANCE COMMITTEE

5. *Seeks to create maximum public confidence in every recognized form of advertising—out-of-doors as well as newspaper, magazine, direct mail, etc.—by making all advertising trustworthy.*

Customers dissatisfied by reason of unfortunate experiences with advertised goods or services may secure adjustments through the Bureau, which at the same time takes advantage of the opportunity to educate the advertiser in error to better methods and to impress on the individual customer the integrity of most business.

A woman in Portland ordered a pair of solid gold earrings of special design. When the earrings were delivered, she became suspicious of their quality and a test by another jeweler confirmed her opinion that they were not solid gold. The customer attempted to get a refund of her money, which was refused. She took up the matter with the Better Business Bureau, which found the facts to be as represented by the woman. At first the store was not inclined to concede anything, but a straight-from-the-shoulder talk to the manager on the influence of such methods on the prestige of his business and the Good Will of all business brought results. A refund was made to the woman and the store had been given a new conception of the cash-drawer value of honesty in merchandising.

6. *Increases public confidence in all advertising and merchandising by cooperating with the advertiser to represent*

correctly his goods and the conditions under which they are sold.

STATEMENT:—" \$10 Y Fire Extinguishers, \$4.98. Buy one and reduce your auto insurance 15 per cent."

It was called to the attention of the Bureau that these fire extinguishers did not all contain a Fire Underwriter's label and that they did not all reduce premiums on automobile insurance.

The matter was taken up with the Y Manufacturing Co. and it was learned that they had been in communication with the advertiser in advance. Both the manufacturer and the Vigilance Committee have been assured that care will be taken to prevent a recurrence of this matter in the future.

7. Helps an advertiser make his printed announcements more believable and productive. In many cases it turns an unscrupulous advertiser into a fair-dealing advertiser.

"RUST-PROOF IRON"

The Bureau received a postal card signed by a Mrs. X, stating that she had bought a well-known washing-machine from a local firm who had advertised same as being rust-proof and that after short use, it had rusted and that the firm in question had refused to make a satisfactory adjustment.

INVESTIGATION: The local representative for Y Iron stated that their product should not be advertised as "rust-proof," but could be advertised as "rust-resisting." This information was not submitted to the retailer, who sold the washing-machine, as the Bureau desired to make a complete investigation as to whether the lady who had purchased same had given it reasonable care. It was found that no such person lived at 3d Street, or 4th Avenue.

RESULTS: However, the next advertisement of the retailer in question carried the words "rust-resisting" in explanation of Y Iron—this without any suggestion from the Bureau that an investigation was being made. The constructive power of the Bureau had apparently had a silent but imperative effect.

It later developed that apparently a competitor of the retailer had made the complaint to test the efficiency of the Bureau as well as to "knock his competitor." The case was thus automatically cleared up to the satisfaction of all concerned.

8. Protects public confidence in the business community as a reliable trade center so that buyers in the surrounding territory may feel that they will get value-received in a Bureau City.

STATEMENT:—"Lots \$500 to \$600. Write or phone for an appointment to inspect B by motor or airplane."

We received a complaint to the effect that the lots advertised at \$500 to \$600 were not sufficient in size to be used as a home site and that when one answered the advertisement it was explained by the salesman that two or more would have to be purchased in order to secure sufficient area upon which to build. It was further reported that one of the representatives of the advertiser had been approached on the question of inspecting B by airplane and his answer was that the statement offering an airplane inspection was a joke.

Our investigator called upon Mr. D, who admitted that the lots were too small for home sites and that the property was divided into this size lot (25 x 150) so that it would be possible for a purchaser to secure a 75 foot front by buying 3 lots, while this would not be possible if they were divided into 50 foot lots.

Our investigator explained to him that there was no objection as to the size of the lots or the quoting of the price of a single lot so long as the copy made clear the fact that one could not purchase a single lot and secure sufficient ground upon which to build a home.

When Mr. D was approached on the question of the airplane inspection, he said that arrangements had been made with the flying field at K for an airplane and that if our investigator wished to make the trip, the plane was at his disposal.

9. Informs stores which are members of the Bureau concerning misleading statements made by employees with respect

to goods advertised, as well as the unfamiliarity of employes with merchandise advertised by their respective departments.

STATEMENT:—"Gillette Razor, 50c."

Our investigator noticed the sign in the window of the above-named store and, upon going in and purchasing one of the razors, found that it was one of German make designed to resemble the Gillette razor.

He called this to the attention of the advertiser, who immediately removed the sign.

10. *Coöperates with an honest business institution to help it remove confidence-destroying spots in its own advertising and merchandising.*

AUCTION SALE OF UNREDEEMED PLEDGES

A well-known firm of auctioneers advertised a two-day public sale of "Thousands of Unredeemed Pledges of D's Loan Office."

INVESTIGATION: Investigation showed the fact that the great majority of the articles offered for sale had never been in the stock of D's Loan Office, were not unredeemed pledges of any kind and were, in truth, the property of another well-known loan office, which was keeping its own name in the dark and had simply arranged the sale under the advertised name of the auctioneer company.

RESULTS: The auctioneer was advised that his sale could not continue unless the truth of the matter was clearly given to the public. The owner of the stock, whose name did not appear, was advised likewise and the sale did not open on the second day. The first day's sale was conducted at a loss of something over \$100, which is a striking evidence of the poor business probable as a result of misleading and untrue advertising. The Bureau is convinced that had the sale been advertised strictly according to the facts in the case and conducted along the same lines, there is no doubt that it would have been a success.

STATISTICS WERE TRUE

A company selling orchard lands in a southern state published, in its prospectus, statistics of probable yields from bearing

trees which were questioned by a prospective purchaser. Investigation showed that the advertiser had based the data in question on carefully verified figures and had understated rather than overstated his proposition based on actual yields. In conference with representatives of the company, the committee recommended that future advertising state the sources from which the figures quoted were derived and make clear the care with which the yields were verified and analyzed, in order that believability might be increased.

11. *Curbs certain types of fraud such as "home work" schemes and "gyp" sales, advertising both locally and nationally in the classified columns of newspapers and magazines and by direct mail.*

Y SECURITIES ADVERTISING

D's "investment house," the Y Securities Company, posed in many advertisements as a regular establishment dealing in "reliable industrial securities." This appears on the letterhead, although we have been unable to discover that either D or the Y Securities Company ever dealt in anything but the stocks of D's various enterprises.

In a magazine called, with fine irony, "*Truth*," and containing about as wild and unreliable "news" of phenomenal fortunes made in oil as we have ever seen, the Y Securities Company was a liberal "advertiser," if, indeed, the magazine was not merely a house organ for that company. In one of these announcements it is stated, in an effort to sell Y Securities stock, that "Here is a chance for you to take absolutely sure profits out of the great Texas oil boom. The Y Securities Company is as sound and as strong as the Rock of Gibraltar. It markets nothing but the very best oil securities, and it takes no risk of any sort whatever. Every transaction brings its stockholders a profit."

As before stated, this company dealt in D's stocks exclusively: X Oil, now in a receiver's hands, Y Oil and Refining, now defunct, and the Y Securities Company, "as sound and as strong as the Rock of Gibraltar," which is also now defunct.

ADVERTISING FOR "SUCKER LIST"

D has more than once advertised in newspapers offering to send free to inquirers, maps and data regarding the Texas oil fields. These advertisements do not mention his oil companies but they are merely inserted to get additional names for his "sucker list."

We suggest that copy received from D be weighed in the light of facts set out above.

12. Promotes state and municipal legislation for the better protection of legitimate business and the public from abuses of advertising. But only flagrant misuses of advertising are prosecuted, and then only as a last resort.

Examination of X, said to have been the organizer of four Suit Clubs, will take place in Police Court according to information given out by the Prosecuting Attorney.

The warrant was issued after investigation by the Better Business Bureau in conjunction with the Prosecuting Attorney's office. Men who joined the clubs, it is charged, paid \$1 a week until a certain amount had been placed to their credit. Then they were supposed to have the privilege of selecting a tailored suit. Once a week, it was advertised, a drawing would be held and suit given free.

Investigators working for the Better Business Bureau have been informed by local detectives that no one has received a suit free as far as they have been able to ascertain. A foreman in the Plant told detectives he was notified that he had won a \$38 suit, but when he went to claim it he was informed that all suits at this price had been disposed of, but he could obtain a \$55 suit by paying the difference.

According to the Prosecutor few men ever got suits for the amount they agreed to pay. After paying in the required sum, it was charged, the club members were informed that cloth had gone up and the suit would cost \$70 or more. There are approximately 300 complaints in the Prosecutor's office, the police say, of persons who have paid their money and never have drawn a suit of clothes. Four shops were maintained in P—.

13. Secures adjustments for customers dissatisfied by reason of unfortunate experiences with advertised goods or service, at the same time taking advantage of the opportunity to educate the advertiser in error to better methods and to impress on the individual customer the integrity of most business.

This practice of deceptive cuts or illustrations is causing much dissatisfaction and is greatly decreasing reader-confidence because,

1. The reader always assumes, and rightfully so, that cuts are samples of the merchandise offered for sale (the only exception being announcement advertisements and others of general nature).

2. When it is found the style represented by a cut is not to be had, and, perhaps, never was included, there is a great big loss of good will.

Is it worth it? If you have experienced some of the reactions of the buying public as the author has experienced them, you would say NO. Besides, some advertisers seem to use such cuts with intent to mislead.

14. Takes the necessary steps to protect investment bankers from the unfair competition of fraudulent stock promotions, conserving money in legitimate business channels in the interest of banks and business generally, and maintaining the confidence of the public in the advertising of worthy investment securities.

The Minneapolis Business Bureau reports its experience as follows: The Bureau has consistently extended and received coöperation from the State Securities Commission in the realm of speculative financial advertising. The investigation of "Fraudulent Financial Advertising" is directed against those who seek to reach investors, big and little, with promises of handsome and impossible returns. Considerable research is required. This is especially true here because an amendment to the Blue Sky Law in 1919 prevents the newspaper advertising of any security not approved by the Securities Commission.

So to a very large extent, promoters of alluring but undesirable investments, securities, oil stocks and get-rich-quick schemers have resorted to sucker lists and direct-by-mail-advertising.

Again quoting Mr. Lee in *Printers' Ink* of June 16, 1921, the following summary is suggestive of the strides made by the Truth-in-Advertising Movement:

There was a need for the Model Statute. It reaches the fraudulent advertiser. Its validity has been upheld whenever attacked. It is used and not misused. It has helped advertising. It is the background of this association.

The year that ended on May 1, 1921, has been the greatest year in the history of the Vigilance Committee, speaking in terms of definite accomplishments. During that year approximately 1,000 cases were investigated, 650 of which have led to definite, successful results. Approximately 1,655 inquiries have been handled.

Figures reported by local bureaus for the year show that 6,815 cases have been investigated and that there have been but 51 prosecutions.

We no longer find it necessary to explain or defend the movement. Our mail is intelligent. The letters we receive show that the movement is understood.

We have gone safely in order that we may go far.

Now we have come to the point where we must expand. We are to stop theorizing that we are covering the entire country and actually cover it.

All of the Better Business Bureaus of the country are to be joined in an association. That association and the National Vigilance Committee are to be welded into one body. This plan was discussed at the convention of the

Associated Clubs and will be acted upon in a short time.

In order to make our work national in scope and in order to handle every case that comes up we must have contact in every county in every state in the Union.

I have said that we have relied upon the Postal Law in certain cases. We want the Model Statute to be the whole force so far as law is concerned. Through the new contacts which are to be created we intend to have the Model Statute enacted into law in every state in the Union. It has been asked why we do not endeavor to have the Model Statute made a federal law. This we do not want. There are several reasons. The most important one is that it is possible to obtain action more readily in the state courts than it is in the federal courts. There are generally not so many other cases ahead in the state courts.

At Atlanta a campaign for the purpose of putting the Model Statute on the legislative records of those states which do not now have it was discussed. It is now planned to publish a brief on "The Law and Misleading Advertising," which will contain a discussion of existing laws affecting advertising and the prevention of fraud and which will show why the Model Statute should be enacted into law exactly as it was first proposed by *Printers' Ink*. This brief will be given wide publicity as an educational force.

Unless we can put the law on the books of every state this movement cannot advance as it should. The Model Statute has been the ounce of prevention that has made it unnecessary for the advertising business to look for the pound of cure that surely would have been necessary had the Model Statute not been enacted into law in an increasing number of states since 1913.

Better Ethical Standards for Business

The Purpose of the Commercial Standards Council

By WILLIAMS HAYNES

President, Drug and Chemical Markets, New York City, Chairman, Educational Committee, Commercial Standards Council

ALTHOUGH there is full knowledge of good and evil among business men, nevertheless, business ethics have always lacked the class consciousness of professional ethics and as a result, the ethical forces of business have not been well organized. Despite the Clayton Act and the Sherman Law, "fair and honest dealing" is as yet ill-defined; in many industries "trade custom" is still the only ethical code; what is condoned in one industry as a business necessity is condemned in another as business dishonesty. This confused and complicated situation has been hurt, rather than helped, during the past five years.

The mad scramble for the extra profits scattered broadcast before all industries by the War; the wholesale cancellations of contracts at the signing of the Armistice; the demoralization of both buyer and seller during the deflation period, are all reflected in business tendencies, commonly noted in many directions. And there is danger lest these tendencies develop and become fixed during the years of bitter competition that are before us. It is, therefore, significant that just at this time a national organization, composed of members drawn from every business field, should be formed with this avowed object: "To develop the highest commercial standards and to eliminate harmful business practices." This first co-operative association of the ethical forces of American business is known as the Commercial Standards Council.

The organization was born at a meeting in New York City in January of 1922. A group of men composed

largely of the officers of national business associations, called together by the author, met to discuss ways and means of assisting in the passage of the Judiciary Committee Bill (H. R. Bill 10159) "to further protect interstate and foreign commerce against bribery and other corrupt trade practices."

OBJECTS AND ORGANIZATION

For the purpose of fostering higher business standards and eliminating business malpractices, the Commercial Standards Council binds together commercial organizations of many types in many fields, and also firms and individuals interested in better business ethics. Its president, very fittingly, is a purchasing agent; its secretary, an advertising man. On its Executive Board serve a well known salesman, the publisher of a business paper, representatives of the shipping and the paint and varnish industries, and a college professor. Affiliated with it are many business organizations representing credit men, purchasing agents, advertisers, sales managers, and manufacturers of such varied products as chemicals, printing inks, coal-tar dyes, office appliances, celluloid, disinfectants, hardwood lumber, paper, machinery, etc.

Its organization is informal. Membership is open to any association, firm, or individual interested in furthering the objects of the Council, and its funds are raised not by dues, but by the voluntary contributions of members. Headquarters are maintained at 19 Park Place, New York, where literature and membership applications may be obtained.

The work of the Council, administered by an Executive Board of seven, is to crystallize the best sentiment of American business, to inform business men and the public on questions of business ethics and to stimulate and direct efforts tending to the elimination of unfair and dishonest dealings. In the main, its work is being done indirectly through the direct efforts of the organizations affiliated with it. The Commercial Standards Council has set before it, as its first task, the elimination of commercial bribery, and to this end is conducting an educational campaign and working to secure the passage of federal legislation.

COMMERCIAL BRIBERY

The secret giving of commissions, money and other things of value to employees of customers for the purpose of influencing their buying powers, is an evil more widespread than is acknowledged. It is a peculiarly insidious and dangerous tendency since it blinds a man of character to his sincere, good convictions and forces him to yield to competitive pressure in the belief that to resist would be to court disaster. Commercial bribery, if allowed to proceed unchecked, will destroy legitimate competition, for it easily defeats honest advertising or efficient salesmanship and always frustrates efficient purchasing on the basis of quality and value. It affects vitally, therefore, both sellers and buyers, and is of direct concern to advertisers, salesmen, and purchasing agents; manufacturers, jobbers, and retailers. It adds tremendously to the cost of distributing all goods, and this unnecessary selling expense is naturally passed on to be paid ultimately by the American public.

Unfortunately, the evil is spreading. From its very nature, if it is not checked, it will honeycomb all American business, because the most sincere

and honest seller of goods is powerless, no matter what the quality or price of his product may be, to sell to a buyer whose purchases are controlled by graft. It takes many forms; not only the direct payment of a cash bribe, but special rebates, double invoices, coupons redeemable in goods, elaborate presents, extra commissions for quantity orders or quantity sales. It is found most commonly in connection with the sale of basic commodities used in manufacturing and in foodstuffs; but it is reaching throughout the manufacturing industries and even into the retail trades. Some industries, notably the paint and varnish manufacturers and the shipping interests, have had the high moral courage to admit the evil, but many industries, where it is common, do not acknowledge the fault.

PROPOSED FEDERAL LEGISLATION

The work of the Federal Trade Commission, the passage of various state laws against commercial bribery, the cases which have come into state courts under these acts, have all called attention to the spreading evil. Publicity is the only weapon of the Federal Trade Commission, and the state laws, since American business has largely wiped out state boundaries, are enforceable only in a single commonwealth. Neither can adequately cope with the national situation. On January 27, 1922, a federal bill was reported in the House of Representatives, by the direction of the House Committee on the Judiciary, to eliminate commercial bribery. This proposed bill is a model based on the experience of state laws and the laws of Great Britain and her colonies. It contains several significant features, without which no commercial bribery legislation can be effective:

1. Its scope covers not only direct bribe giving, but the falsification of

documents and the solicitation of bribes.

2. It provides that "trade custom" shall not be admissible or constitute a defense.

3. It provides immunity under the law to the person who shall first report the fact, under oath, to a federal district attorney. Thus it breaks up the conspiracy of silence between bribe giver and bribe taker that other commercial bribery laws enforce on both parties, and makes the law, through fear of exposure, a preventative measure.

4. It provides for a fine or imprisonment for proven breaches of the act.

AROUSED BUSINESS SENTIMENT

Excellent and practical as are the provisions of this proposed federal law, the Commercial Standards Council appreciates fully that American business must clean its own house. The law is a broom for this purpose, but the broom must be wielded by the force of public opinion. The Council is, therefore, collecting facts and figures about commercial bribery. It is showing American business men the commercial shortsightedness and the dishonesty of the practice. It is rousing the better

business sentiment of the country.

American business today faces a hard task. Economic readjustment has brought tremendous competition. In many industries there must be great curtailment of production unless export trade is developed, and this must be developed in spite of a war-won, undeserved reputation for sharp dealing. American business is freer from dishonesty and malpractice than most national commerce. An American business man, A. T. Stewart, gave to the world a fixed price in retail stores, abolishing haggling barter and discouraging completely the age old proverb: "Let the buyer beware." Known prices are the rule—not the exception—in most branches of American trade. American business has abolished the giving of secret rebates against transportation charges. American business has established advertising and salesmanship upon an honest basis of efficiency not known elsewhere in the world. Through the Commercial Standards Council, the right consciousness for fair dealing, inherent in the average American business man, has the opportunity for expression and for organized effort to establish higher business ethics.

A Simple Code of Business Ethics

By EDWARD A. FILENE

President, William Filene's Sons Company, Boston, Massachusetts

GOOD will is one of the most important assets of any business. It is dependent basically on the confidence of the public. Public confidence, in turn, depends upon the real service to the community that the business performs.

Because of the recognition of this fact, many sets of "business principles," often unwritten, have grown up.

There has developed, also, a code of business ethics that, though unformulated, has perhaps obtained somewhat general recognition. There seems to be need of a simple written code. I propose the following:

1. A business, in order to have the right to succeed, must be of real service to the community.

2. Real service in business consists

in making or selling merchandise of reliable quality for the lowest practically possible price, provided that merchandise is made and sold under just conditions.

This is short and simple. At first glance it may appear insufficient. Yet a closer study will show that it covers the whole field of business ethics. Let me try to indicate a few of the possible bearings of this statement of principles and draw upon the experience of a lifetime to show why it is my firm conviction that it is not only all-sufficient from an ethical standpoint, but is also the very best basis upon which the greatest just success in business can be attained. It covers all the degrees: to get on (positive); to get honor (comparative); to get honest (superlative).

In the first place, I say that one has not gained the right to success until he has made his business of real service to the community. Just because one has organized a company, built a factory or opened a store is no reason why the community owes him a living. He went into business voluntarily. He must justify success by doing something which merits compensation.

This would seem self-evident, and yet it is true that a great deal of business is done with no real comprehension of this axiomatic truth. If I take money from you without return service, by force or threat, I am legally a thief and a robber and can be arrested and put in prison. Likewise, if I take from you by fraud or false pretense, I can be dealt with legally. But under the common practice of today I can safely take from you, in return for merchandise, all that I can induce you to pay.

In reality, the difference between the last case and the first is not fundamental, the chief difference being that the last is done under the shield of custom. Ethically, unless the manufacturer and

the merchant give an adequate return, unless they render a real service, they have no more right to a reward than has the robber or the cheat.

"REAL SERVICE TO THE COMMUNITY"

At the first reading, the truth of the first part of the code, even though acceptable, may not seem to cover enough of the field. This will depend on the definitions given to the terms in the code. Let us examine the definition of service in the second sentence of the code. What constitutes "real service to the community?" Clearly it is not offering merchandise for sale at the greatest price which we believe can be obtained from the public. The work of the manufacturer consists in making goods which to his expert knowledge are best adapted for the particular uses for which people want them. The work of the merchant consists in obtaining merchandise in wholesale quantities and selling it in retail quantities at a just price.

The merchant who buys a pair of shoes and sells them for more than a fair advance over cost, performs no adequate service to the community and is ethically no more entitled to a profit than is the man who steals an automobile and sells it to some unsuspecting purchaser, or the man who makes adulterated goods and sells them for genuine. We would refuse to pay the bill of the physician, the carpenter or the man who shovels snow off the sidewalk, if he did not perform a service somewhere nearly equal to his charge. Should not the same demand for adequate service be made on the manufacturer, the merchant and the banker as on other servants of the community? But we pay the charges of a system of merchandising that, because of excessive expense in doing business and the charging of profit on the basis of such expense, adds, on the average, nearly

or quite one hundred per cent to the production cost of the goods.

If one makes merchandising too expensive, if he exacts a profit greater than a just compensation for his work, then he ceases to serve the community. In so far as he makes profits beyond the value of the work performed, he becomes a parasite. The manufacturer or merchant who does not reduce business costs and profits to the lowest practicable figure, and so enable the community to obtain goods for as low a price as possible, is not serving the community to the best of his ability and consequently is not entitled to large rewards. It is his duty to sell his goods or merchandise at the lowest practicable price, including the lowest safe profit. His total profit must increase, not through large margins on few transactions, but through the number of people whom he serves and the number of times he serves them.

"LOWEST PRACTICABLE PRICE"

But this is still not enough. Our code should furnish us something with which to measure this lowest practicable price. A price that is the "lowest practicable" in one place may not be so in another, and the lowest practicable price one year will probably not be the lowest practicable another year. Civilization started when a savage horde discovered that some one of the group could make sharper arrow heads than the others and gave him the task of making arrow heads for all the rest, promising, in return, to provide him with the necessities of life. From then until now we have gone on progressively increasing the specialization of individuals and with every step of specialization and standardization we have reduced the total amount of work that humanity as a whole must do to maintain itself. Each improvement and refinement of this process makes

each effort of each individual worth more, or, relatively, makes the things he needs or desires cheaper. We are blocking the march of civilization unless we can make ever cheaper and cheaper the goods we sell.

During a life-long experience in retail distribution, my views on the factors that go to make up real service, and their relative importance, have changed a number of times, but each change has brought me nearer to the conclusion that no real service can be rendered except as business makes the necessities of life more and more accessible to the consumer, *i.e.*, makes prices cheaper and cheaper. The greatest rewards of business in the past have gone to financial leaders. In the future, success will depend not so much on finance as on the ability to lead large numbers of employes so that they will produce successfully and cheaply. The basis of such success is harmonious conditions.

It should be axiomatic that the merchandise must be of reliable quality, for a lowering of prices through the substitution of inferior merchandise is not real progress. Surely we need not dwell on this point of the creed.

"JUST CONDITIONS"

Finally, the proposed code calls for merchandise made and sold under "just conditions." If one "serves" the community at the expense of any portion of it he has not added to the sum total of the community's welfare, but has been merely the means of depriving some of its members of benefits for the sake of distributing them to others. If a merchant handles merchandise that has been made under "sweat shop conditions," under "padrone" systems or by underpaid or overworked people, he is sinning ethically as well as economically; for either he is benefiting himself, or he is letting the rest of the com-

munity benefit, at the expense of those workers.

Equally, a manager's treatment of his employes must be just. This is not the place to enlarge on the various methods that have been developed, chiefly during the last ten years, to ensure justice and pleasant relations inside the factory or shop. Too much thought and planning cannot be given to creating good relations between employer and employe, but in the endeavor to improve these relations the fact should not be lost sight of that such work is not an end in itself but merely a very important factor among the means for attaining the true aim of business—service to the community.

THE BUSINESS MAN AND HIS EMPLOYEES

I am in honor bound, as a decent citizen, to treat my employe as well as I know how. If I am to require of the city that it send my employe to my store in the morning fortified by education and health to do my work, I have assumed by that very requirement the duty of sending them out at right at least not deteriorated, and if I have any sense of honor I shall want to give good measure and try to send them out, so far as lies in my power, improved physically, financially and morally by their working hours.

Now, of course, this is a hard thing to do and, in fact, is not generally accomplished. But the failure to do it is always paid for indirectly and is more expensive and more onerous than the doing. Employes made friendly to their employers, through just treatment and good conditions, are much more likely to be useful and profit-producing employes than are those who work under bad conditions. Moreover, good relations between employers and employes leave the managers free for their proper work of planning and admin-

istering the growth and success of the business.

We have been admonished to "love our neighbors as ourselves." Our real neighbors in these days of city life are not at all the people who happen to move in next door to us; our nearest neighbors are the people with whom we spend most of our waking hours. And with whom do we employers come in more continuous contact than with our employes? When once our thoughts run along this direction we see that there are many additional reasons for recognizing our employes as our nearest neighbors.

"NEIGHBORLINESS" AND ITS IMPLICATIONS

With this consideration of my employes as my nearest neighbors and with the welfare of the business also urging me on, I soon found myself going outside of my store walls into city affairs. I was forced to associate myself with groups of other citizens who were trying to make the city a better one for my employes and myself to live in. This is justifiable; indeed, becomes essential, once the fact is recognized that our employes are our neighbors. We cannot let our neighbor pass in a rainstorm without offering at least a share of our umbrella, and when my employes came in wet from bad street car service I felt that I was only trying to be a good neighbor when I undertook to help reform that service. I therefore participated in the organization of a franchise league which for many years was influential in bettering the local service.

The same relationship in civic affairs forced me to help consolidate and reorganize the various business associations of the city. It led me to help create a City Club, where employers and employes and the friends of each could meet and learn to understand

each other. Following this same impulse of duty to my neighbors—my employes—I finally came naturally into national and international work.

As I look back I find that each of these was, in itself, worth the time and effort it took, but, as my vision grew from these experiences, I began to see that it was all a means to the big end, to the end of real service which, for a business man, is to enable people to buy cheaper and cheaper. This insight came late with me, and I am going to dwell on it because I find that it comes late with most men.

CHEAPER PRICES THE WAY TO FREEDOM

The world is pretty well agreed now that, after all, its greatest progress will come from the greatest freedom to all men. While definite gains may be made by autocratic control of business yet, in business as in government, our experience has shown us that democracy is the safest road, and in spite of all its weaknesses it is the dominant political creed of today. Democracy is based on freedom. Freedom is not an eagle screaming on a crag, as we were told at Fourth of July celebrations at an impressionable age. The fundamental basis of freedom is the margin men have in their income over their outgo. No man is really free if he does not have more than enough with which to purchase the necessities of life for his wife, his children and himself.

If a pair of shoes for the baby costs a day's work and a pair for each other member of the family costs from a day and a half to two days of work, a suit of clothes or a dress costs from five to seven days' work, monthly rent costs six to ten days' work, and so on, then the man who requires the work of every available day in the month to provide food, shelter and clothing for

himself and his family is not free. There was a time when it cost a considerable fraction of a day's work to procure a drink of water; today, in the cities at least, water is so cheap that in this particular item men are free.

Under a code of ethics that requires business to sell cheaper and cheaper, the necessities of life will be more easily obtained, and gradually the so-called luxuries of life will become more and more available for less and less hours or days of work; and thus men will become freer and freer.

The results of selling goods cheaper and cheaper show in the reduction of the number of hours of a day's work. Within a generation the working hours have gone down from sixteen to eight. There are enough indications and possibilities of further reductions in sight to make it not impossible that in time five hours' work a day will be sufficient to provide a living for a man with a family. This does not mean that a man will work only five hours, but rather that he need work only five hours for a mere living; many men under such circumstances will work eight or ten hours at their vocation, spurred on by the desire to put their children through college or to satisfy other desires. It will also leave the workers free to have an avocation besides—five hours for necessary work and five hours for that work to which they would give their whole time if they could afford it. Personally, I have always thought that preachers and teachers would do better work if they followed their professions only part time and some other vocation the rest of the time. This idea has been accepted in some schools.

CONCLUSION

I dare not follow this line of thought out into its ramifications, attractive as they appear, lest I bethought a dreamer

instead of the shopkeeper that I am. Along this line, however, I believe lies the solution of many of the pressing economic questions of today which seem so hopelessly insoluble to many thoughtful citizens. It lies in making the products of business available at ever cheaper prices, and so permitting the great mass of the people to enjoy the full fruits of modern specialization and standardization. Mr. Ford has proved that this is not merely a philanthropic idea. The producer or the merchant who grasps the truth of this thought will in the end win a reward which is fairly his and which goes far beyond the dreams of the man who is in business for the profit alone.

One of America's foremost citizens lately said to me that in his opinion the security of the world depends in the last analysis on the way in which individuals conduct themselves. He said that the thing most needed was the will for service to the community, to the state, to the nation and to the world. Illustrating this point, he mentioned examples from his own experience showing that the progress of the world was retarded by selfishness, of which there was no better measure than the unnecessarily high prices charged for goods.

From the so-called "practical stand-

point," also, I want to call attention to the fact that in these years of intense competition people are scanning prices as never before and buyers are going where they can buy the cheapest. Firms which cannot save their wastes of labor and material and meet this competition by selling cheaper and cheaper, will be forced out of business. Those that succeed will succeed on a bigger scale than ever before. They will sell greater and greater quantities with less and less expense and margin of profit on each item.

Mr. Ford has done this in his production. He has demonstrated in fact, and not merely in word, what the application of this idea does, in the case of an article which was a luxury when he took hold of it but became a necessity as he made it cheaper and cheaper. What is applicable to automobiles is applicable to any article demanded by the mass of the people.

So I say:

1. A business, in order to have the right to succeed, must be of real service to the community.

2. Real service in business consists in making or selling merchandise of reliable quality for the lowest practically possible price, provided that merchandise is made and sold under just conditions.

Campaign of the International Association of Rotary Clubs for the Writing of Codes of Standards of Practice for Each Business and Profession

By GUY GUNDAKER

Philadelphia, Pennsylvania, Chairman, Committee on Business Methods, International Association of Rotary Clubs

A ROTARY CLUB consists of men selected from each distinct business or profession, and is organized to accomplish:

First: The betterment of the individual member.

Second: The betterment of the member's business, both in a practical way and in an ideal way.

Third: The betterment of the member's craft or profession as a whole.

Fourth: The betterment of the mem-

ber's home, his town, state and country, and of society as a whole.

The Rotary Club of Chicago, Club Number One, was organized on February 23, 1905, by Paul P. Harris, a lawyer, and three Chicago business men. At the first meeting of the club, it was made a fundamental of membership that only one man would be selected from each business or professional calling. "Rotary" was chosen as the name of the new club because the members met in rotation at their various places of business.

From a nucleus of nineteen members in 1905, Rotary has grown to eighty thousand, with clubs in more than a thousand cities, embracing twenty-five countries of the world. It is an odd coincidence that, concurrent with the growth of Rotary, there has been a constantly increasing wave of public sentiment among business men, demanding a more exacting and more sensitive business conscience. Along with the development of this quickened business conscience men in various crafts began to feel the necessity for codes of standards of correct practice.

While it is apparent that the statement of standards of practice is the special province of national, provincial or state organizations of the various businesses or professions, experience has shown that these bodies are slow to act on such matters. In considering the writing of codes of standards of practice, one must remember that business men as a rule, through the very practical way in which business is conducted, are not abstract thinkers. Few business men have ever essayed to abstract the principles of correct human relations from the many concrete examples within their own experience and arrange them for the guidance of their fellows in the crafts; nor do they constantly examine their organizations to observe whether trade cus-

toms of many years' standing have the warranty of being good business practice. The larger the business, and the greater the number of departments and employes, the more difficult it is to be absolutely certain that the business methods practised are above criticism. Many business men whose character and integrity are beyond reproach and who endeavor to conduct their business with regard to high standards, when inspired to careful self-examination of their current practices, pale when brought face to face with conditions in their establishments. They discover practices of the most reprehensible type, practices inherent in the usages and customs of the craft.

Codes of ethics have arisen in various ages, reflecting the ideas of scholars and philosophers. Most of these are couched in high-sounding phrases, calling men to higher ideals and higher business standards. Many of them are platitudes; many are so indefinite and general that they have no practical significance. It is not possible to practise undefined business ideals, or to strive to actualize glittering generalities. Therefore, the pressing need today is a plain statement of business rules of conduct which shall clearly define what one should do and what one should not do.

As Rotary is a cross section of the craft and professional world, and as each Rotarian has placed upon him the responsibility for doing something for the betterment of his craft, particularly stressing higher business standards, the International Association of Rotary Clubs has inaugurated a campaign for an intensive drive on the writing of codes of standards of correct practice in all crafts corresponding with the businesses or professions represented in Rotary. In organizing this campaign, Rotary made it quite clear that it was not presuming to advise the

crafts as to their duty in regard to codes, but it did, however, insist that those Rotarians who were members of the craft should become active craftsmen, coöperating with their fellow-craftsmen in seeking the statement of standards of correct practice.

It has been noted that the time is appropriate for this codifying of standards of practice. It is doubly appropriate when there is a proximate transition from lean business to a period of great prosperity. It is far more necessary to create and instill inspiration for high business standards in prosperous times than in poor times. When there is little business and strong competition, business men feel the necessity of strict attention to details, high-class service and zealous regard for the highest ideals of business methods. On the other hand, when the sales-manager's desk is overloaded with orders, and people are clamoring for the products of his establishment, there is a tendency to laxness in the appreciation of these selfsame business virtues. Delivery of goods when convenient, substitutions, loose interpretation of specifications, sharp practices, are the concurrent results of waves of prosperity.

As an illustration of this tendency, you will recall that during the recent World War ethical business dealings were particularly noticeable by their absence. When these untoward conditions develop, craft organizations must step in and, by a carefully prepared educational campaign, seek to have their members and others avoid that which is the natural concomitant of business prosperity. Many years ago, Machiavelli said, "The end justifies the means." The Romans had an aphorism, "Let the buyer beware," and even our own Benjamin Franklin based a plea for honesty on the fact that it was "good policy." Rotary, as

an institution, deprecates business practices based on such low motives and urges the necessity for higher business standards on the very elemental ground that such standards are right, and therefore binding on all business men. Rotary's part in the campaign for codes of correct practices is mainly inspirational.

In urging Rotarians to be active in inspiring all business or professional associations to prepare codes of standards of practice, the Committee on Business Methods felt that since the writing of codes was absolutely a new work for many craft associations, it was necessary to indicate the points which should be covered in the code. With this in view, each Rotary Club received the outline of a theoretical model code, so as to call the attention to all of the various relations which should be included. This statement was not haphazard, but was a deduction from a study of many codes received by the Committee prior to its campaign. It stated:

A code of correct practices should include:

(a) *A statement covering the personal character rules of conduct for the craftsman himself as the executive officer, if it be a corporation.*

(b) *Rules of conduct governing the relation of the employer with the employe (the observation of which may be the only known antidote for social unrest).*

(c) *Rules of conduct governing the craftsman's relations with those from whom he makes purchases.*

(d) *Rules of conduct governing the craftsman's relations with his fellow-craftsmen.*

(e) *Rules of conduct governing the craftsman's relations with professional men whose professions are interlocked with the craft; such as physicians, engineers, architects, etc.*

(f) *Rules of conduct respecting the*

craftsman's relations with the public, presumably his patrons, both clients and purchasers.

The underlying principle of these rules is Service, flanked by Honesty and Truth.

(g) Rules of conduct governing the making and executing of contracts, with special reference to specifications. (This is included as a special heading not only because of its importance, but to avoid splitting the topic in its phases, under four or five headings.)

(h) A statement of certain well-known violations of the code of correct practice with strong discouragement of such practices. In brief,—a statement of the "Don'ts" of business conduct.

If the craft to which Rotarians belong has no written standards of practice, Rotarians should take the lead, or support other craftsmen, in urging the appointment of a committee to prepare a code of correct practices. If the craft has a code of correct practices, and it fails to include all of the relations appropriate to a model code, Rotarians should take the lead or support others in urging its revision or amplification.

Let us consider the eight suggested topics for a model business code, and see what rules of conduct should be included under each heading. As a general proposition, "the earmarks of a worthwhile code of ethics are its definiteness and conciseness in statements. Rules of conduct must be very specific and plain spoken, and should completely cover all phases of business relations."

A

A statement covering the personal character rules of conduct for the craftsman himself or the executive officer, if it be a corporation.

The rules of conduct under this topic should present the personal and business qualifications of the craftsman who engages in a given business or pro-

fession. The Oregon Code of Ethics for Journalism, approved January 14, 1921, states among the personal qualifications: sincerity, truth, care, competency, thoroughness, justice, mercy, kindliness, moderation, and conservatism. Each qualification is taken up in detail in the code.

Business qualifications mentioned in many codes include: honor, integrity, business morality, credit standing, and knowledge of the details connected with the conduct of the business or profession.

B

Rules of conduct governing the relation of the employer with the employe (the observation of which may be the only known antidote for social unrest).

The standards of practice, under this topic, should be based on a spirit of fairness and coöperation, through friendship. Among the standards stated should be those covering: employment, wages, permanency of occupation, working conditions, training, opportunities for advancement, recreational facilities, disputes, assimilation of new employes, discharge from service, etc.

This particular topic is not well covered by any code received by the Committee on Business Methods. In one of the proposed codes, there is a statement which might be taken as typical of the rules covered under this topic: "Employees should be paid wages consistent with living conditions and the service rendered—a fair day's wage for a fair day's work. Employers should not permit the unusual employe to give more than a fair day's labor for the pay he receives." In order that rules of conduct might be suggested covering this portion of the code, an advertisement was inserted in the *Rotarian*, the monthly publication of Rotary, asking all readers who had established friendly,

intimate and cordial relations with their employes, to write an article under the title, "How I Set My Own House in Order." It was believed that from such a symposium, many just and equitable standards of practice might be deduced. Many articles covering this point are now being studied by the Committee, to see if any general principles can be abstracted for the guidance of business generally.

C

Rules of conduct governing the craftsman's relations with those from whom he makes purchases.

Rules of conduct under this topic should include treatment of seller (audience, interviews, truthful statement of facts, etc.); purchasing methods; conditions of purchase (offer and tender); containers, where goods are f. o. b., etc.; whether the order is a brand order or an order based on set qualities; quantity shipments and prices.

The proposed code of the Restaurant Association will illustrate the types of rules of conduct for this section:

Courtesy should be given all salesmen or representatives inquiring for business. It is thoroughly good conduct to decline to see salesmen who desire to present subjects of no interest to the purchaser.

The time of salesmen should not be heedlessly wasted in having and completing interviews.

Truth and honesty should be observed in all interviews. No misleading statements should be made to secure lower prices, nor should lower prices of competitive firms be shown to others.

The seller who offers a lower price for equal quantity and quality should get the business; it should not be given to his competitor at the same figure.

It is thoroughly ethical to decline to

accept goods delayed in delivery beyond the time specified, provided that acceptance would cause loss to the purchaser. It is unethical to decline goods on delayed delivery to secure price revision, if no loss has resulted from such delay.

The terms of payment governing the purchase and the place of free delivery should be fixed at the time the purchase is made, and carried out to the letter. Discounts for cash can only be taken if payment is made within the time limit specified. Etc., etc.

Note how plain-stated the code is. No indefiniteness, no frills, just a business man's writing down of his standards expressed in "Do's and Don'ts."

D

Rules of conduct governing the craftsman's relations with his fellow craftsmen.

The standards of practice under this topic are based on the principle that fellow craftsmen should work together for the benefit of each and all.

As illustrative rules, note the following:

From the Pharmacists' Code:

He should not in any way discredit the standing of other pharmacists in the minds of either physicians or laymen. He should not obtain or use private formulas of another, nor should he imitate or use another's preparations, labels or special forms of advertising. He should not fill orders or prescriptions which come to him by mistake.

From the Code of the National Association of Ice Cream Manufacturers:

Making false or disparaging statements, either written or oral, or circulating harmful rumors respecting a competitor's product, selling price, business, financial or personal standing, is an unfair practice.

Simulating in one's own product the trademark, trade name, cartons, slogans, advertising matter or appearance of the competitor's products is an unfair practice.

As a limiting standard of practice on the relation between fellow craftsmen, the Associated General Contractors of America state:

It is improper practice to engage in or countenance any combination whereby prices are fixed or the market controlled in favor of any particular interest or against the interests of the public.

E

Rules of conduct governing the craftsman's relations with professional men whose professions are interlocked with the craft; such as physicians, engineers, architects, etc.

The interlocking relations of businesses with professions require a statement which is generally quite technical in character. The Pharmacists' Code prescribes that the pharmacist should not assume any functions of the associated profession (medical), except in cases of emergency. It stresses careful and faithful preparation of the physicians' prescription and obedience to his orders relative to refilling or supplying copies of prescriptions. Whenever there is doubt as to the physician's orders, verifying information should be secured to avoid mistakes. Similar relations exist between the architect and the builder, the civil engineer and the road constructor. Rules of conduct under this topic should be included in professional codes, so that the reciprocal relation of the professional craftsman with the business craftsman will be covered.

F

Rules of conduct respecting the craftsman's relations with the public in general and with those who become his patrons, both clients and purchasers.

The standards of practice governing the relations of the craftsman to the purchasing public should so direct his course that every business relation

and service exemplifies honorable and straightforward dealings. This applies particularly to clients and the purchasing public. There is still another phase of the craftsman's relations to the public, treating of his conduct as affecting the general weal.

As regards the purchasing public and clients, the standards of conduct should cover fair prices, service, honest products truthfully represented, and physical equipment of the plant. The following well illustrate:

From the National Retail Monument Dealers of America's code:

To have an orderly and inviting place of business, realizing that it is not only a source of satisfaction to the owner, but compels the respect of his patrons.

From the Code of Ethics of the National Hardware Association:

Price reductions by manufacturers should be passed promptly to the retail merchant, and by him to the public.

From the proposed code of the National Restaurant Association:

Purchases of equal quantities should have equal prices.

From the Code of the National Commercial Fixtures Manufacturers' Association:

Any craftsman who authorizes an individual to solicit business and sell goods for him should see to it that the salesman is fully instructed as to the policy he should pursue on all matters covered by the Craft's code of standards of practice.

As regards the general public, standards covering the maintenance and observance of local, state and federal laws, broad principles of social service, participation in community betterment movements (civic, charitable and philanthropic), are points to be covered in the code. Such are the points illustrated in the following:

From the Titledmen's Code of Ethics:

That every titelman should have a lively and loyal interest in all that relates to the civic welfare of his community and should join and support the local, civic and commercial bodies.

From the Code of the Wholesale Growers of the United States:

To assist in the enactment maintenance and enforcement of uniform Pure Food Laws which in operation deal justly and equitably with the rights and interests of the consumer, retailer, jobber and manufacturer.

From the Code of the Associated General Contractors of America:

It is improper practice to engage in any movement which is obviously contrary to law or public welfare.

From the Code of the National Association of Electrical Contractors and Dealers:

Every member of this Association should be mindful of the public welfare and should participate in those movements for public betterment in which his special training and experience qualify him to act. Every member of this Association should support all public officials and others who have charge of enforcing safe regulations in the rightful performance of their duty. He should carefully comply with all the laws and regulations touching his vocation, and if any such appear to him unwise or unfair, he should endeavor to have them altered.

G

Rules of conduct governing the making and executing of contracts, with special reference to specifications. (This is included as a special heading not only because of its importance, but to avoid splitting the topic in its phases under four or five headings.)

In general, the rules to be written here should have as their object the regulation of contracts between all of the parties mentioned in the code: to wit, the employer and employee, buyer

and seller, the craftsman and the purchasing public, to the end that all the parties to the contract are mutually benefited. The standards under this topic should clearly state correct methods of framing specifications, definitions of the terms used, and concise expression of various trade customs and usage which constitute a large part of such specifications. In both the writing of contracts and specifications, it is necessary to devise rules of conduct to eliminate much useless legal verbiage, and particularly the avoidance of the so-called "joker clause." The latter is inserted apparently as a minor provision, but oftentimes in legal value, it outweighs in importance many of the more emphasized sections of the contract.

As an illustration the following is given from the Code of the New York Building Congress:

It is unethical for the architect and engineer to cover possible oversights and errors by indefinite clauses in contract or specifications.

A noteworthy contribution to standards of practice is supplied by the American Society for Testing Materials, which presents complete standards of practice in the making of specifications for paving brick, and rules governing their interpretation and performance. Their proposed code contains the following two paragraphs, worthy of consideration:

The contract and specifications should be drawn in plain, simple language by one who has had experience both in drawing and interpreting them.

All provisions should be fair, open and understandable without concealment, without ambiguity, without hidden meanings. Nothing should be left to inference or assumption. This will be promoted by adopting standard forms, which have been tested and proven by prior use.

H

A statement of certain well-known violations of the code of correct practices, with strong discouragement of such practices. In brief—a statement of the “Don’ts” of business conduct.

There are very few illustrations of Don’ts shown in existing or proposed codes. The “Don’ts” might be misunderstood to be the opposite rules to the “Do’s” contained under all the other topics. It was not the desire or intention to have negatives developed in this way. The Don’ts were to be of a general character, or of a very broad principle. In fact, the rules to be covered could not logically be included elsewhere. The Don’ts should be ascertained by examining the three cardinal principles which have recently arisen in the business world, namely: “Let the buyer beware,” “Treat the keen and confiding buyer alike,” and “Truth and service—the handmaidens of business prosperity.”

The National Association of Ice Cream Manufacturers includes this paragraph in its code, under the heading, “Unfair practices of sellers”:

Bribery of buyers or other employees by the seller, by the payment of percentages of the purchase price of goods bought, or with gifts of money, presents, treats and so on, to obtain business or to induce continuance of business.

From the proposed Code of Ethics for Contractors (Lancaster, Pa.), may be quoted:

That a contractor cannot honorably accept a remuneration, financial or otherwise, from more than one interested party. “No man can serve two masters.”

Financial or other arrangements as part of the purchase, commonly designated as graft, shall not be made. As regards the “Don’ts” covering the elimination of the corrupt and growing

practice of commercial bribery, fifteen large national associations have formed commercial standards of practice. They propose to devote a vigorous attention to this topic and support national legislation for the suppression of this form of business graft. The secret giving of commissions, money, or other things of value to employees of customers, for the purpose of influencing their buying powers, is a dangerous evil more wide-spread than is acknowledged and one which is unquestionably growing.

During the month of March an intensive study was conducted by Rotary into each one of the eight suggested topics for a model code. Twenty-five district conferences were held throughout the Rotary world. Each conference was asked to discuss a single topic, in much detail. The results of this discussion will be passed to a committee for standardization and generalizing. The campaign, furthermore, was carried through the month of April in the Rotary Clubs by having Rotarians present the need for codes of standards of practice; the advantages which come to a craft through the adoption of such a code; brief experience talks by members who have been instrumental in having codes written or revised by their crafts; and talks by Rotarians before the clubs and their craft associations on the relations of employers and employees.

As regards the results of the campaign, to this point, we may summarize as follows:

1. Many men who were not members of their craft association realizing for the first time, the vital importance of such an association, in establishing higher business standards, have joined their craft associations. One national association secretary states that his association has almost doubled its membership.

2. There are over one hundred committees at work drafting proposed codes of standards of practice. Hart Seeley, one of the district governors of Rotary, is chairman of a committee framing a code for the Glove Manufacturers' Association. The other Rotarians who are chairmen of national committees are too numerous to mention. One national secretary writes, "My office has been swamped with letters asking for our code of standards of correct practice. If the Rotary Committee will call off its Rotarians, we will immediately set about to write a code." Still another association writes, "It took us five years to frame our present code of standards of practice, which was made up mainly through compromises of men who did not wish the standards to be too exacting. Now, Rotarians urge us to go to

the limit in making a stringent code. They are so insistent our President has appointed a re-drafting committee."

3. Many associations have had so many requests for their present code so that their membership might study it and ascertain if it was worthy, that they have been compelled to get out an entirely new edition to supply the requests. This feature of the campaign, in interesting many who heretofore had no knowledge of their craft code or no knowledge of the business standards sought, will accomplish great good for the general business world.

Rotary appreciates the opportunity of presenting this campaign to the American Academy of Political and Social Science, and trusts that its members who are more skilled in matters of this sort, will aid the businessman wherever opportunity offers.

China, Our Chief Far East Problem

By W. W. WILLOUGHBY, PH.D.

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WE all know that the Conference at Washington¹ was called primarily to reduce the building of armaments, but that our President thought it also necessary, in that connection, to bring about, if possible, an adjustment of the political conditions in the Far East which, if not corrected, might lead to war in the future. Therefore he invited not simply the first five powers that were to participate in the Arms Conference, but the four additional powers, that had political or economic interests in the Pacific and Far East.

I wish to say a word or two as to the political situation in the Far East. The political equation there is one of three terms: First, there is China with its vast stretches of territory, and its great population, numbering a quarter of the human race; second, there is Japan with its eager, aggressive, ambitious and increasing people; and third, there are the interests of the Western powers.

CHINA UNDER FOREIGN CONTACT

First, of China. The Chinese people, as has often been said, have an authentic history of four thousand years. They are one of the greatest peoples that have lived on the globe. They have created for themselves a civilization that has been the admiration of all those who have studied it. They built up for themselves a culture, an art, a social life and a polity that was admirably adapted to their dominant agricultural needs, and which har-

monized with their social life, a system of government which proved defective only when brought into contact with the Western industrial life. Thus it has been said that China maintained herself unaided for four thousand years, but began to fall when she began to get aid from the Western World. There is much truth in this for, from the time she was brought into contact with the West and forced to accept Western ideas and to meet the military competition of the Western nations, her own system of political rule proved weak and defective. That system relied more on reason than on force. It had not the appliances of Western mechanical life. Thus the Western nations were able, one after another, to tie bonds about China until she became almost helpless. Thus it has come about that nearly all the foreigners in China live under their own laws and are responsible to their own officials.

In many of the so-called treaty ports foreigners have municipal areas termed concessions or settlements where they have their own local governments, practically free from Chinese administrative control. What is perhaps most serious of all, the nations have deprived China of the control of her own customs revenues. They have made it impossible for China to levy more than a five per cent tax on any of the commodities imported into or exported from China. She must get the unanimous consent of the treaty-powers before she can increase her tariff. The treaty allows her five per cent, but she has been able to collect, because of undervaluation of commodi-

¹Conference on Limitation of Armament, Washington, November 11, 1921. This paper was written before the Conference had completed its work.—Editor.

ties, only three to three and a half per cent ad valorem.

Not content with rights wrong from China by means of treaties which she has felt herself constrained to sign, some of the powers have exercised rights and powers in China without even the semblance of treaty permission. They have stationed troops at various points in China. Japan now has 1,200 to 1,500 men at Hankow, in the center of China, one thousand miles up the river. She has had them there for ten years. There are many other foreigners there, but none of the other nations have thought it necessary to protect their nationals by stationing troops. Some of the nations have established wireless stations without treaty right. In Peking I could put a letter in a foreign post office and send it anywhere. All those post offices are there without any treaty right.

THE NEW REPUBLIC

In 1911 China started upon the great experiment of a republic to replace the forty-centuries-old monarchy. The result of such a transition necessarily brought about a certain amount of discontent and a temporary weakening of authority. But a republic requires for its support the loyal, active obedience and sympathy of its own people and it is impossible for them to have that respect for a government which is treated as the Chinese government has been treated by other nations. This, the Western powers have now recognized. They now see that one of the problems of the Far East is to rehabilitate China, to aid her to establish an orderly government.

This is what the Conference at Washington is trying to do. It has made provision for getting rid of all the foreign post offices. They will be removed by the end of this year.

China has got very little with reference to tariff legislation. She is allowed to levy an effective five per cent, but that is only what the treaties have allowed her, and that she will not get for some time. The question of the right which all foreigners now have to live under their own laws and be responsible only to their own officials, is also important. The Conference has provided that there shall be a committee appointed to investigate conditions in China with a view to determining how soon and by what steps this condition of affairs can be relieved, and China thus made the mistress of her own affairs. While I am speaking of foreigners, I should say there is no country in the world where foreigners are so safe, both as to life and property, as they are in China.

THE JAPANESE MENACE

Not only are China's autonomous powers limited in the manner in which I have been speaking, but her very political existence is threatened. Russia was certainly a threatening menace to her at one time. But, since 1905, the menace has been from Japan—a small but aggressive power, militaristic, bureaucratic and imperialistic. You all know the history of Japan and Korea—how Japan took Korea under her protection and in five years annexed her. I do not need to speak to you of how she took the place of Russia in Manchuria; how, through the control of the South Manchurian Railroad, she has claimed the right to maintain police, to maintain troops, who exercise political jurisdiction, and in other ways to exercise a dominating influence in the great Manchurian provinces with twenty millions of population.

I do not need to mention to you the now famous or infamous "Twenty-one Demands" which Japan put forward.

in 1915. The chief question which is still before the Conference is: "What relief is China to get from those demands and what assurance are the other powers to get?" because, after all, the most important political element in the Far East is this penetration, this military and political penetration of Japan into eastern Asia. Japan makes claim to a sort of preferential right in those regions. She calls it "special interests," giving to this term a definition different from that which our government has given it. So long as Japan claims this special, indefinite, vague right she can go into Asia to take what she needs; and this is, to my mind, the point that is most likely to provoke future trouble in the Far East.

It seems to me that the Conference will fall far short of the goal which it has been striving to reach unless it can clear up this situation. The nations should say to Japan: "Do you claim special rights in those countries, and what are those rights? What, specifically, is it you claim to have by special right in Eastern Asia?"

THE QUESTION OF SHANTUNG

Finally, there is the question of Shantung. When Japan declared war against Germany, she claimed the right to attack the German-leased area of Kiaochow. China was then a neutral, but her government designated a region around and outside of the leased area, and said to the Japanese, "You can conduct military operations in that region." But instead of that Japan landed troops far away from that region and immediately took possession of the railroad running 265 miles from Tsintao to Tsinanfu, the capital of the province. This was done, it will be remembered, in the territory of a friendly power. No military necessity for this action ex-

isted, but Japan has been in possession of the railway ever since.

Naturally, the Chinese have looked on this as a mere military occupation which they have not been able to prevent, but which has given to the Japanese no equitable or legal title. Thus it was that the Chinese said they could not enter into direct negotiations with the Japanese in regard to that situation. Therefore, in Washington, Mr. Hughes and Mr. Balfour offered their good offices to the Japanese delegation and to the Chinese delegation to cause them to come together in informal conversations, which would not raise the question of legal rights, but which would approach the situation as a *de facto* one, and see if some agreement could not be reached. There have now been some twenty-five of these discussions. They have disposed of a good many matters. There were a great many questions as to what should be done with the various kinds of public properties, and the mode of valuing them.

When it came to the question of railroads, Japan declared, "Yes, we will give you back the railroad if you will pay us for it," and China said she would pay the entire assessed value of the railroad with all its appurtenant properties. "How will you pay it?" asked Japan, and China answered, "We will pay it in cash, in a lump cash sum." But Japan said she did not want that. Then the Chinese offered to pay it by deferred payments, running over a period of years. That, again, was not satisfactory. It finally appeared that what Japan particularly wanted was to keep control of the operation of the railroad for a number of years. That is, she wanted the chief engineer, the chief accountant and the traffic manager to be Japanese. What the outcome is to be, no one can say.

HOPE IN THE WASHINGTON CONFERENCE

It was not by accident or courtesy that China was asked to open the work of the Conference dealing with the Far East. It was because in her future is bound up the political future of the Far East; and therefore, unless the Washington Conference can take off enough of the bonds from China in accordance with the second of the so-called Root resolutions, to give her

an opportunity to develop for herself stable institutions; unless they can take the troops out of China; unless they can give her some greater degree of security and of financial autonomy, and thus enable her to become a strong, prosperous, central state, the Conference will certainly fail to achieve its purpose. If China is given that opportunity, I feel confident that she can, by her own effort, bring about this desired condition.

China and Her Reconstruction¹

By ADMIRAL TSAI

Member of the Chinese Delegation to the Conference on Limitation of Armament,
Washington, 1921

DR. SZE has given you a dinner, and Dr. Rowe evidently has asked me to give you a pinch of salt or a drop of sugar. You have just been told by Dr. Sze about conditions in China and I wish to speak a few words about the difficulties of the North and the South in China. But I do not wish you to understand it in the sense of 1861 and 1865. We have a North and South problem, but it is a little different. The difference between the North and the South in China is a difference between politicians in regard to the constitution; and whenever the two parties have not agreed, that party which was not the recognized government has bolted down to Canton. Now suppose Mr. Wilson had been defeated in the election, and that he would go to Florida and say, "I left Washington, licked. I will do a little on my own in Florida."

If you sent five hundred dollars from Peking to Canton, through the post

office or any other way, you would get it. If anybody in Canton sent to me in Peking a basket of bananas, I would get it in Peking. Out of the ninety-five members of the delegation that came with me, seventy-four were from the southern provinces yet they were all commissioned by the northern or recognized government. The so-called North and South question is simply that one government functions in the North and the other so-called government functions in the South; and it has nothing to do with the people. The people are entirely united. Although we have been fighting for several years, you never heard of the northern portion of the Chinese fleet's going to the south to blockade any southern ports. Nor have you heard of the southern squadron's coming to the northern waters to besiege. You have never heard a gun fired. It is all on ink and paper. Ladies and gentlemen, I do acknowledge that we are having a civil war, but a very "civil" war.

¹This paper was written before the Disarmament Conference had completed its work. C. L. K.

RECONSTRUCTION, NOT DESTRUCTION

You are very much interested in China, and sometimes in your anxiety for us, you say, "Why don't you hurry up and hustle the way we do." You are giants of a different type and we have to run when you are walking. You think we are not progressing, but we are. In 1881 when I returned to China from the United States where I had been a student, they thought I was a Bolshevik; but now I am a conservative and am relegated to the background. And I think they would have scrapped me if it had not been for the fact that I have been in the United States and that to some extent I understand the Americans. That is why I am here to represent China at the Washington Conference.

You want us to go ahead, but when we are scrapping,—I am going to use that word all the time—when we are scrapping institutions of several thousand years, in the pulling down you must expect timbers flying and bricks falling and dust raising. And we hope that you will have patience with us. This is reconstruction and not destruction.

Some people are very interested and claim the virtue of protecting us—not in the way Americans are trying to protect us, but in the way the wolf is protecting the lamb or the fox is protecting the goose. I will not say who. When I am in a dilemma, I always speak in parables. So, he that hath ears, let him hear.

You say, "Oh, China is in an awful condition. She cannot rule herself." Yes, I have noticed that. We have been ruling ourselves for four thousand years without outside help and it is just because we have been having foreign intercourse for about a century that we are about to fall. It is pitiable to think of it! Without support, we

have stood for four thousand years—with support, we are falling.

The most dangerous element now are the militarists, but they are being gradually eliminated. Public opinion is intensely strong and since the time of 1894 until now, there has been a gradual working-up of public opinion in China. Indeed, in the last ten years the public opinion demonstrated by students has been overwhelmingly strong, and men like Chang Hsun Tim, like Lung Kwang, Lu Yung-ting and many others (as I name them to you they seem meaningless, but they were governor-generals of the Yangtse province and the Kwang-tung and Kwang Hsi provinces), all have been eliminated by this public opinion of 400,000,000, and have withered like autumn leaves. Thus, in that way, public opinion, by passive resistance, brings down the militarists.

AMERICA'S FRIENDSHIP—PAST AND PRESENT

The reason that you have such a great interest in China, and that China has such a deep friendship for you has a historical foundation. I do not tell you that in platitude but, if you will let me, I will sum up that foundation in a few names. Some of them are Mr. Burlingame, down to Mr. Cushing, on to Mr. Congor, to Colonel Dearby, down to Mr. Rockhill, to Mr. Calhoun, to Mr. Crane and now to Dr. Schurman—these, every one of them, have left without instructions from your State Department as to what to do or what exact policy to adopt, but, invariably, whether they have been men from the north or from the south, from the east or from the west, whether they have been Democrats or Republicans, they have had three main ideas to guide and direct their policy in China, and these are: sympathy, friendship and helpfulness,

Such sentiments have characterized the work that has been done by your government and through your diplomatic agents in China.

The Chinese students in the United States are living evidences that the wise use of the Chinese indemnity you returned is linking year by year a closer tie between the two nations. Chinese students and Chinese girls come in here and associate with your young men and with your young ladies and knit together a friendship that cannot be separated even by death; because when they grow up and they have children, those traditions will be carried on from generation to generation and for thousands of years to come.

Then, during the Boxer Movement, your General Chaffee in command there remonstrated with the Germans for looting our astronomical instruments and, by a mysterious fate, these instruments were returned to Peking and are set up now on the walls in the original places from which they were taken. If you happen to be in China and if I should know, ask me to be

your guide and I shall be glad to show you these ancient things.

Again, you invited us to the Disarmament Conference in this country. No other nation would have invited a weak power, in a military sense, like China to come; but you have brought her to restore to her what you think is her due. And you have got the powers cornered. You have asked the members who come here, "To whom does this belong?" and the owner says, "To me"; and again you ask, "To whom does this belong?" and the owner says, "To me"; and in some things the owner has been willing to pay. But, ladies and gentlemen, imagine the other party saying, "We want to be friends of China. We want to get a fifty per cent share of the interest. You can't pay it back." That is a beautiful theory of friendship, which I cannot understand.

Years ago your immortal Lincoln adjusted the color line between the white and the black; and now your enlightened government is adjusting the color line between the yellow and the yellow.

The Future of Chinese Democracy

By DR. SAO-KE ALFRED SZE

Chinese Minister to the United States

TO some Western observers the Republic of China seems to be still tossed in an unceasing storm. To them, the temporary presence of the militarists and the small differences between Canton and the central government appear to be symptoms of some greater evil that is to come. Some doubt whether the Chinese people have the real capacity for self-government and whether China is, after all, qualified to enjoy the blessings of de-

mocracy; others attribute the present seeming unrest and turmoil to the corruption of officialdom and advocate foreign supervision as a panacea; a few would try to indoctrinate our countrymen with Bolshevik ideas and point to them as a remedy; still others think that the trouble with China is the lack of a strong central government and that all will be well if this is established; and still others maintain that what China needs at present is

not a strong central government but a federal state. A veritable Babel of confusion! Of course there are many who have faith and hope in the ultimate triumph of democracy in China and who believe that the forces for good will eventually gain ascendancy. But even with them faith seems to take the place of intellectual conviction and hope appears to lack intellectual assurance. In other words, they do not seem to know that the present unrest and disturbance is only apparent, not real and fundamental; that the pains which China is experiencing are pains of growth, not pains of senility, and that what little evil she has at present is essential to the greater good she will achieve in the near future. There is, in fact, no ground for discouragement and pessimism, and we can rest assured that China will be a real champion of democracy.

As I see it, the troubles China has been having for the last few years are all due to China's attempt to adjust her social democracy to the political democracy of the West. This adjustment is a gigantic experiment and it is small wonder that friction and discord have at times occurred. For social democracy and political democracy differ widely, both in origin and in moral principle. Social democracy first comes into existence in communities where there is general competence and no marked personal eminence; where there is no aristocracy and no caste, but, instead, an intelligent readiness to lend a hand and to do in unison whatever is to be done, by a kind of conspiring instinct and contagious sympathy. In such a community democracy is a spirit, a mental attitude, a disposition of the mind, and the machinery of government is not present, or, if present, not perceived. We might consider such a community as having the most democratic government, for everything

there is naturally democratic and there is no governmental machinery at all.

ATTEMPT TO ADJUST SOCIAL TO POLITICAL DEMOCRACY

Political democracy, however, comes into existence later in time. Unlike social democracy it is not natural, but artificial. It arises by a gradual broadening of aristocratic privileges, through rebellion against abuses, and in answer to restlessness on the people's part. It is necessitated by the complexity of modern civilization and the rise of different classes; it is compatible with a very complex government and an aristocratic society. It is an attempt at the harmonization of the different interests of the different parties or groups of people. Unlike social democracy, which is a general ethical ideal, looking to human equality and brotherhood, democratic government is merely a means to an end and an expedient for the better and smoother government of certain states at certain junctures. It involves no special ideals of life. It is a question of policy: namely, whether the general interest will be better served by the harmonization of special interests as is shown in Rousseau's conception of the general will. Thus political democracy is concerned more with the machinery of government and in that respect differs greatly from social democracy. Social democracy is ethical socialism, whereas political democracy is ethical individualism.

Now the Chinese democracy is a social democracy. Ever since the dawn of Chinese history, the predominating political theory and the actual practice have always involved the elimination of governmental machinery. Confucius, as well as Laotze, maintained the same position. Indeed, the absence of governmental machinery and the comparative absence of governmental in-

terference have been testified by all the eminent writers of China so that it is unnecessary for me to multiply proofs and examples.

But social democracy is possible only in a civilization that is not complex, in a civilization that has no castes, no aristocracy. In such a civilization, complicated machinery is a burden and out of place. The spirit of love can harmonize whatever diversities and differences there may exist. Now the Chinese civilization, as a result of contact with the West, has become more complex and the interests of the people have become diversified. As yet class consciousness is not distinct and marked in China. But there is no longer that old unity of desire, that unity of aspiration, and that unity of taste. Of course, it is not necessary, nor is it wise, for China to part with her social democracy, which is too precious to be discarded, but the Chinese social democracy has got to make use of the political machinery of the West, the excellent technique of organization, so as to meet the demands of the hour. China, however, must humanize the machinery so taken over and this process of humanizing the machinery, this process of adjusting the political machinery to social democracy, of reconciling the alien form to the indigenous spirit, is a long process and a difficult one. It is not, therefore, that the Chinese people are incapable of self-government. Rather are the Chinese people not used to machinery, which to them is strange. Once the machinery is mastered, once the native spirit and the alien form are fused and well blended, there will arise a splendid example of modern democracy in Asia.

For China is determined not to be enslaved by the machinery of government, and will not rely for the final success of democracy solely upon that nice balancing and harmonizing of

private conflicting interests which the utilitarian school so enthusiastically preached. On the other hand, China will try to avert the dangers of materialistic democracy—eccentricity and dull uniformity. China will try to secure in art and literature that quality of distinction which Matthew Arnold finds lacking in democratic countries. At the same time, China will try in all the spheres of human activity to secure a real standard, which is also lamentably absent in other democratic countries. China is trying to have distinction, not eccentricity; real standards, not dull uniformity. And to attain these ends China will, in conformity to a tradition, give everyone an equal chance. For people may be born equal, but they will grow unequal and the only equality subsisting will be equality of opportunity. China will thus attempt to remedy such drawbacks of democratic government as the great critics like James Bryce and James Russell Lowell have pointed out.

These statements are not vague generalities, for they are abundantly borne out by facts. Of the five presidents of the Chinese Republic, four have come from humble families and most of the men who are guiding the destiny of China are from the common people. And, as an antidote against the tendency to overmaterialization, China is making every effort to promote her higher education, as is evidenced in the establishment of the Peking Government University and the Southeastern University and other similar educational institutions. This leads me to the second point of which I wish to speak—the adjustment of new ideas to old.

ADJUSTMENT OF NEW IDEAS TO OLD

The confusion that prevails in China is, as I have said, due to China's attempt to adjust her indigenous social

democracy to the political democracy of the West. But it is also due to China's attempt to adjust old ideas to new ideas. After her serene peace had been disturbed, she realized that something was wanting in her country and, consequently, sent out her students to study in the West. At first China thought the remedy for her weakness was military science. But gradually she realized that perhaps she could profit more by the political machinery of the West, and so her students took up the study of political science. Then their attention was shifted from political machinery and government to applied science, for the Chinese people have come to think that in that way lies salvation. But at present there are also students studying pure science and philosophy and the number is increasing. Thus the understanding of the West by the Chinese people is a very gradual process and a matter of absorbing interest. It is an approach from facts to ideas, from the part to the whole. The Chinese people have indeed followed the steps to perfection which are laid out by Plato. But this vast amount of intellectual material which has found its way into China has to be cast into the mental furnace of the four hundred million people, and the fusion of the material that is already there with this new material is no mean task and will require much time.

During the first few decades of China's contact with the West, the point on which China wanted to be enlightened was the material side of its civilization. But at the present stage of China's development, increased emphasis is being laid on the cultural side—the sciences and the philosophy of the West. The reason for this deep interest in Western philosophy and sciences is that the Chinese people want to know thoroughly what

is their own. John Stuart Mill says that for the understanding of a civilization it is absolutely necessary to master several languages; and one Chinese scholar has said that he came to know more intimately of the civilization of his own country after he had made a careful study of the Western civilization. The reason is obvious, for the more we are conscious of the existence of others, the more we are conscious of ourselves; and the more we know others, the more do we know ourselves. But the invasion of these new ideas necessarily arouses, in the beginning, the sharpest conflict with the hitherto unshakable beliefs and convictions held by the Chinese people. Coupled with the spirit of Browning's *Grammian*, with the insatiable thirst for knowledge which is so characteristic of scholars of the Renaissance, the Chinese are absorbing Western knowledge too fast. Hence the great friction and the seeming disorder and confusion.

However, as Bertrand Russell says, "Chinese problems are not capable of being satisfactorily settled by a mechanical imposition of order and what we consider good government. Adjustment to new ideas demands a period of chaos, and it is not for the ultimate good of China to shorten this period artificially." Professor Dewey entertains similar opinions in this regard and the judgment of both is perfectly sound. For just as a man must pass a turbulent period in his life before he can attain self-mastery and sweet calm, so must a nation pass a stormy period before it can attain poise and balance. Seeming disquiet and disorder in China is essential to her growth because good and evil are relative, and a good comes only after transcending an evil, which is itself a negation of good. An English philosopher has said: "A man draws

nearer to virtue when he commits a sin. For sin, as the second in time of the two steps, has the advantage over innocence. In passing to sin from innocence the sinner has taken a step on the only road which can lead him to virtue, and morality has gained."

THE DEVELOPMENT OF NATIONAL UNITY

But those people who complain that China has not progressed very far are wrong. For details of China's progress I may refer them to Dr. M. T. Z. Tyau's recently published book entitled, *China Awakened*. But the most conspicuous example is the national unity which China has achieved. The transition of civilization from the family to the national state is the most marked characteristic of the last fifteen years of Chinese public life. China is not, as Russell thinks, less a political entity than a civilization, for China is not only a civilization but also a political entity, which is partly due to the introduction of the political democracy of the West. Professor Seeley, of Cambridge, used to tell his students that nationalism is the key to the civilization of the nineteenth century. He cited the twenty-five German kingdoms uniting to form the German empire, the eight principalities of Italy uniting into the kingdom of Italy, the welding together of the discordant states into the American Union, and the knitting together of the colonies and dependencies of the British Empire as the products of the national ideal operating in the history of the nineteenth century. It is this spirit of patriotism which is lifting the four hundred million of China to that exalted plane in which they are willing to lay down their lives upon the altar of their country. The united front presented by the whole people against the Japanese occupation of Shantung,

the downfall of the powerful Anfu party through the agitation of merchants and students, the suppression of gambling at a loss of \$14,000,000 a year to the treasury of a province and the adoption of the spoken language as the universal language throughout the country—all these are indications of a growing national spirit.

The growth of public opinion in China is another wonderful symptom of political unity. Before the establishment of the Republic the rank and file paid no attention to public affairs. Now their voice is not only heard regarding the important matters in the country but actually heeded by the government. This was seen in the clash between the Anfu and the Chi-li factions last year. It is seen in the influence exercised by the opinion of the people on the Washington Conference.¹

But, although it is true that nationalism, as Professor Seeley says, is the key to the political history of the nineteenth century, I predict that internationalism will be the key to the political history of the twentieth century and after. Sir Robert Hart, who studied the Chinese for some forty years, believed that the Chinese potential hatred of foreigners constituted a real menace to the human race. He held that some four hundred million people, sturdily and passionately devoted to their ancient customs, might, in time, under the influence of bitter race hatred between the yellow and the white peoples, be changed from a peace-loving community into a war-like people, bent on avenging their wrongs. But the Chinese patriotism and nationalism is not the patriotism and nationalism of the Jingoists and Imperialists. It is not the pooled self-esteem of which Mr. A. Clutton-

¹ Conference on the Limitation of Armament, Washington, D. C., November 11, 1921.

Brock speaks. There is no hatred of foreigners in China and there is with the Chinese no longer any of the racial antipathy and antagonism which is made so much of by the nationalists and the capitalists. Our patriotism is not the patriotism which manifests itself in hatred rather than in love; because false patriotism cannot declare itself for what it is and is, therefore, always negative rather than positive. Our patriotism is the patriotism which is love of something not ourselves, love of our own people and cities and our native fields, and which, being love, does not in the least insist that that which is loved is superior to other things or other people, unloved because unknown.

We know that where there is real affection there is not this rivalry or enmity; no man, because he loves his wife, makes domestically patriotic songs about her; nor does he hate or despise the wives of other men. In true love there is no self-esteem, but rather it increases the capacity for love; it makes the loving husband see the good in all women; and he would as soon boast of his own wife as a religious man would boast of his God! And true patriotism is true love. This true patriotism finds its expression in the impartial and disinterested pursuit of Western learning by the Chinese people, which is so eloquently testified to by Bertrand Russell and Professor John Dewey, the two intellectual ambassadors from Great Britain and the United States of America; it finds its expression in the great emphasis on the regeneration of the spiritual side of China's civilization, which is diametrically opposed to the exclusive devotion of Japan to her material progress and military efficiency. In short, the growth of nationalism and patriotism in China is a blessing to herself and a blessing to the world.

LEGAL REFORM IN CHINA

Another example of China's progress is the legal reform affected under the guidance of my colleague Dr. Wang, one of the intellectual leaders of China and one of the delegates to the Washington Conference. As you all know, legal reforms had been carried out to some extent in the last years of the Tsing Dynasty and the codes that were then compiled were modeled after those of Japan. But these codes did not appear to the Republican Government as compatible with the liberal ideas which had gained a strong hold in China. Thus a new commission was formed to revise those codes. The revised codes were printed in 1919 and immediately translated into English and French. While those who codified the provisional codes during the reign of the Manchu Dynasty had been educated in Japan, those who codified the new codes derived their inspiration from the European countries and profited immensely by the recent progress in law. They have borrowed much from the codes of Hungary, of Holland, of Italy, even of Egypt and of Siam, and from the codes of Austria, Switzerland and Germany. But, at the same time, they have had the wisdom not to break with the past, and, in fact, the traditions and customs of the Chinese people are respected in the provisions of the new codes. The cult of ancestral worship is reconciled to the spirit of the new codes and thus the violation of a sepulchre is punishable. Buddhism is tolerated, and parents exercise a considerable influence in the matter of aggravation or attenuation of punishments.

The completeness and excellence of the codes are such that Professor Garcon of the University of Paris, who is one of the most eminent jurists on the Continent, says of one of them:

It seems, in truth, that, without alteration, this code can be adopted by any Occidental people and that any European country can find in this code some useful reforms which can well be introduced into its own laws.

Again, he says:

The number of provisions of the code indicates a profound knowledge, not only of the texts of recent codes, but also of the science of penal laws which the Occidental criminalists have made. It is sufficient for me to say that this code solves questions of unpunishable crimes of real or theoretical recidive. Our French code unfortunately leaves these questions unanswered.

FURTHER EVIDENCES OF PROGRESS

But progress is shown also in industry. In the year of 1911, there were only 295 industrial companies owned by Chinese but in the year of 1919, there were 994. Then the method of organization, the technique newly learned from the West, is being improved, as is shown by the existence of the Banker's Association and the Student's Association, which spread throughout the length and breadth of the country.

In education equal advancement has been made. In the year 1911 there were two million people in public schools. In 1920, there were five million. Schools have been more than doubled since then. I shall refrain from mentioning the new universities which have been established and the exhilarating intellectual thirst of the whole people which is so well described by Bertrand Russell. Nor shall I dwell on the freedom of thought which is so vividly brought to the minds of the Western people by the British philosopher.

Of course people will remind me that China still permits many militarists, whose influence, however, is rapidly diminishing. Again, their presence, though temporary, is essential to the final success of democracy. They are like the trials through which a youth has to pass before he can become hardy and attain to real manhood. Did not the same thing happen to France and to America?

Besides, it is to be remembered that besides these militarists are the good governors of different provinces whose beneficent work is well recognized by every foreigner. Such is the Governor of Shansi, Yen Hsi Shan, of whom Miss E. G. Kemp in her book, *Chinese Mettle*, says: "He has accomplished in the last ten years a remarkable change in the entire province—the province which is considerably larger than Great Britain." He has initiated so many necessary reforms which can be followed by the rest of the provinces and he has inspired so many people to great efforts that he has come to acquire the name of the "Model Governor." Another such exemplary governor is General Feng Yu Hsiang, whose good work in Shansi Province is equally remarkable.

Thus, if we take a broad view of the whole situation, the future of China is very bright and the progress she has made is considerable. For progress, it must be borne in mind, is never in a straight line. Vico compares it to a spiral which advances and recedes in turn, but which is ascending and progressing all the time. Macaulay compares progress to the tide where the individual wave seems to retreat from time to time, but the tide is nevertheless making steady advance. This is true of progress in every country and it is no less true of progress in China.

Constitutional Government for China¹

By DR. JOHN C. FERGUSON²

Adviser of the President of China

IN coming to a clearer understanding of the present difficulties of China, there is one question uppermost in the mind of Western observers. Why is there a Chinese problem? Why, having been introduced into the family of nations, has not China, like Japan, even more recently introduced, come into the same commanding position among the nations of the world? Why, in China, has the adaptation to modern life been such a slow process, while, in Japan, governmental changes have been so rapidly accomplished as to seat Japan in conference among the five great powers of the present?

The fundamental reason for this has been the fact that China is a self-contained nation, able to feed and clothe her own people, thus performing the two most essential functions of government. She developed a civilization of her own which was never influenced to any large extent by outside forces but which in its turn influenced all neighboring nations that came in contact with it. Her previous experiences with outside nations did not prepare her to appreciate the importance of the impact of the West which came upon her in full force during the nineteenth century. While this outside influence was becoming strongest China herself was suffering from the incompetence of her own government, whose incapacity brought about the devastating rebellions of the Taipings in the fifties and sixties and finally resulted in the overthrow of the Manchu Dynasty in 1911-12.

¹ This paper was written before the Disarmament Conference had completed its work.
—C. L. K.

² Author of *Outlines of Chinese Art*.

FORMER INDIFFERENCE TO OUTSIDE RELATIONS

This failure to comprehend the importance of the new foreign relations with western nations was conspicuous in the fixing of tariff duties by the Treaty of Nanking in 1842. The volume of foreign trade at that time was of so little value in the opinion of the government that it readily agreed to a nominal rate of duty to take the place of the irregular port charges on foreign imports which hitherto had been the custom. The indifference of that time has been the cause of China's later immense losses of possible revenue as foreign trade has developed to large proportions during the intervening years down to the present. The tariff fixed at that time in contempt of foreign trade is now recognized as one of the chief injustices of China's financial condition.

Another instance of China's former indifference to the importance of outside commercial relations was afforded in 1854, when an arrangement was made at Shanghai with the local Chinese authorities for the opening of a customs house under foreign control in which customs dues should be collected by three men nominated by the consuls of Great Britain, the United States and France. Two of these remained only a short time in office, leaving one man, Mr. Lay, to perform the duties. During his absence on furlough, Robert Hart was appointed in his place and out of this simple local arrangement grew up, step by step, the present highly organized customs service under the direction of a foreign Inspector General

with foreign commissioner in every open port. At first China did not want to be troubled with the collection of import duties from foreign ships and attached no importance to the amount collected. Her failure to appreciate the magnitude of the influences which were coming upon her resulted in her willing consent to the planting in her soil of an exotic customs service which, notwithstanding the high efficiency attained by it, remains a foreign growth which must sometime be supplanted by an indigenous one.

Japan was never a self-contained nation. She had studied her civilization in Korea and China and had always been responsive to outside influences. She recognized as soon as her gates were opened by Perry that the incoming strangers were different from any of those with whom she had come in contact in her previous history. She set herself at once to a study of their institutions and methods. Any of her own people who could contribute information to the government concerning foreigners, was honored and his statements were carefully considered. The result of this attitude of mind was that almost from the very outset Japan appreciated at its full value the importance of the new relationships which were forced upon her while at the same time she determined to adapt her own methods to meet the new circumstances.

THE LATE CONSCIOUSNESS OF FOREIGN IMPACT

It was not until the revolution of 1911-12 in China that the country as a whole came to the same kind of consciousness of the importance of relationship with outside nations to which Japan had awakened in the middle of the nineteenth century. Japan awoke early enough to organize her own system in such ways as to

preserve independence and freedom of action. While China slumbered, outside influences were at work obtaining for themselves political, financial, and administrative concessions in which China mortgaged her own future. Now as the educated young men and women of China have come to realize the fetters which the indifference of their forefathers, coupled with the cupidity of outside nations, has imposed upon them, they have discovered that it is too late for them to depend alone upon their own awakened intelligence to cast these off, and at the present Conference³ have made an appeal to the friendly nations for assistance in regaining what has been lost.

The lack of a stable, efficient government in China at the present time can be very readily explained. It is not due to an inability on the part of the Chinese people to develop orderly government for, as the Chinese Minister, Mr. Sze, has said, China has shown through her long history a remarkable talent for self-government. The fact is that since the establishment of the Republic in 1912 China has been passing through circumstances of extreme difficulty. Within two years the Great War broke out in Europe and was immediately followed by the Japanese attack through Chinese territory upon the German leasehold of Kiaochow. This attack was accompanied by military occupation of the whole length of the Shantung provincial railway and by the stationing of a Japanese garrison in the provincial capital, Tsinan. A few months later Japan presented to China the Twenty-One Demands and forced compliance under threat of the use of military force.

This was in May, 1915 and since that

³ Conference on the Limitation of Armament, Washington, D. C., November 11, 1921.

time the whole spirit of the people has been obsessed with a contemplation of the humiliation to which it was subjected and with the determination to regain what has been taken away. The regaining of their rights in Shantung has been believed, and rightly so, by the Chinese people to be the very basis of future national existence and without the return of Shantung any form of government upon which agreement might be reached would be futile. It has been considered that no government which would allow Shantung to be held by Japan could be worth having, and that no constitution could be adopted which would not include a redeemed Shantung. No stable self-respecting government could carry on under the same heaven with a military occupation by a foreign nation of one of China's ancient provinces, and it was idle to talk of written constitutions, parliamentary government and popular representation until the national spirit was calmed by the righting of this injustice. The Chinese people have never despaired of being able to establish for themselves a stable and efficient government; but they have believed that before this could be accomplished the iniquitous imposition forced on them in Shantung must be first removed.

CHINA TO ESTABLISH HER OWN NEW GOVERNMENT

The question is frequently asked: Can China work out her own internal problems? The best reply to this is the asking of another question: Can any single nation undertake the solution of China's internal problems? The obvious reply to this question is that each great nation at the present time has more problems of its own than it can solve with satisfaction to the people. It is plain that no single

nation is in a position to undertake such a task. But would it be possible for several of the nations which have large interests in China to join together in this work? The answer to this question is the difficulty which the powers have always had in adjusting differences among themselves. Until some definite progress is made on such lines among the great nations, what practical result could be accomplished by a combination concerning the greatest problems of the world centering around China? An international commission for China would add to the existing internal disturbances a new element of dispute among the powers which would be members of such an international commission, and would open the way for combinations of intrigue between internal parties in China and the members of the commission. Any plan for the control of China by a single nation or by an international commission is, in my opinion, bound to fail. The only way in which order and government can be restored in China is to recognize that the Chinese must be allowed to undertake and carry on this work for themselves while outside nations conform to the self-denying ordinance of non-interference.

In establishing her new government China will have need of all her foreign-educated young men and women. In addition to the united effort of her own people in this direction, China should continue to receive the sympathy and encouragement of the American people in the same measure in which it was given to Japan during her years of struggle in building up her present modern institutions. It must be remembered that during the early struggles of Japan to maintain territorial integrity, while other nations had taken landed concessions from her and were threatening to carry out on

her soil the same despoliation that was going on in China, America never took any part in this policy and always gave to Japan sympathetic encouragement and help. Large numbers of the leaders of Japan were educated in American schools. It is not proposed that America should do anything for China now that she did not do for Japan. One of the chief regrets of Americans in observing recent events in the Far East is that Japan, after having received such generous sympathy from America in her own dark hours, should not have joined America in extending the same spirit of friendship to China. On the contrary, she has frequently acted as if she were suspicious of American motives in China, though she would have recognized the baselessness of these suspicions if she had stopped to remember the events of her own history. When Japan has given up Shantung and adopted a more generous policy in Manchuria, she may be led by motives of her own self-interest to adopt toward China the American policy of friendly encouragement and coöperation and to renounce the aggrandizing schemes which she has adopted after the example of European nations.

A WORKABLE CONSTITUTION FOR CHINA

The first need of China is a constitution, but the methods which have been taken toward this end during the life of the Republic have proved abortive. In my opinion, they have met the fate which they have deserved, for it is impossible to impose a constitution upon any democracy. There have been three attempts in China to make a constitution for the country by the appointment of constitutional commissions which have had the aid of foreign advisers. The methods adopted were intended to be democratic but

were in reality the traditional heritage of autocracy. Without any mandate from the people, groups of men who had at heart the interests of their respective countries met and adopted constitutions which they thought would be good for the people, just as in the earlier days emperors with their counsellors decreed laws, canons and governmental institutions. The mere fact that one method provided for a hereditary ruler and the other for an elective executive made no essential difference as far as the people were concerned, for they had no voice.

Such constitutions springing full-grown from the brain of the intellectuals can never become permanent. The only way in which a national constitution can ever be established is for the smallest political units to work out constitutions for themselves, constitutions adapted to their own local purposes. The smallest existing political unit in China is the province, though in some instances important cities might serve such a purpose. Even these smallest political units, the provinces, are already large and the problem of working out for them constitutions, one by one, is bewildering in its involvements. Many of the provinces, such as Chehkiang, have two distinct geographical areas with existing rivalries between them and the problem of reconciling conditions even in existing provinces is tremendous.

I do not believe, however, that this problem is incapable of solution. The provinces can amalgamate the interests of their various sections and work out constitutions for themselves. These being decided upon and accepted by the people and having proved by a period of probation their adaptability to the needs of government, will become the units out of which the constitution for the whole country can be developed. In other words, any

workable constitution for the Republic of China must develop upward from the smallest political units and never can be superimposed from above by any possible combination of the intellectuals of China.

Appendix

The Canons of Ethics for Lawyers Adopted by the American Bar Association

[NOTE.—The following Canons of Professional Ethics were adopted by the American Bar Association at its thirty-first annual meeting at Seattle, Washington, on August 27, 1908.

The Canons were prepared by a committee composed of Henry St. George Tucker, Virginia, Chairman; Lucien Hugh Alexander, Pennsylvania, Secretary; David J. Brewer, District of Columbia; Frederick V. Brown, Minnesota; J. M. Dickinson, Illinois; Franklin Ferriss, Missouri; William Wirt Howe, Louisiana; Thomas H. Hubbard, New York; James G. Jenkins, Wisconsin; Thomas Goode Jones, Alabama; Alton B. Parker, New York; George R. Peck, Illinois; Francis Lynde Stetson, New York; Ezra R. Thayer, Massachusetts.]

I

PREAMBLE

IN America, where the stability of Courts and of all departments of government rests upon the approval of the people, it is peculiarly essential that the system for establishing and dispensing Justice be developed to a high point of efficiency and so maintained that the public shall have absolute confidence in the integrity and impartiality of its administration. The future of the Republic, to a great extent, depends upon our maintenance of Justice pure and unsullied. It cannot be so maintained unless the conduct and the motives of the members of our profession are such as to merit the approval of all just men.

II

THE CANONS OF ETHICS

No code or set of rules can be framed, which will particularize all the duties of the lawyer in the varying phases of litigation or in all the relations of professional life. The following canons of ethics are adopted by the American Bar Association as a general guide, yet the enumeration of particular duties should not be construed as a denial of the existence of others equally imperative, though not specifically mentioned:

1. *The Duty of the Lawyer to the Courts.* It is the duty of the lawyer to maintain towards the Courts a respectful attitude, not for the sake of the temporary incumbent of the judicial office, but for the maintenance of its supreme importance. Judges, not being wholly free to defend themselves, are peculiarly entitled to receive the support

of the Bar against unjust criticism and clamor. Whenever there is proper ground for serious complaint of a judicial officer, it is the right and duty of the lawyer to submit his grievances to the proper authorities. In such cases, but not otherwise, such charges should be encouraged and the person making them should be protected.

2. *The Selection of Judges.* It is the duty of the Bar to endeavor to prevent political considerations from outweighing judicial fitness in the selection of Judges. It should protest earnestly and actively against the appointment or election of those who are unsuitable for the Bench; and it should strive to have elevated thereto only those willing to forego other employments, whether of a business, political or other character, which may embarrass their free and fair consideration of questions before them for decision. The aspiration of lawyers for judicial position should be governed by an impartial estimate of their ability to add honor to the office and not by a desire for the distinction the position may bring to themselves.

3. *Attempts to Exert Personal Influence on the Court.* Marked attention and unusual hospitality on the part of a lawyer to a Judge, uncalled for by the personal relations of the parties, subject both the Judge and the lawyer to misconstructions of motive and should be avoided. A lawyer should not communicate or argue privately with the Judge as to the merits of a pending cause, and he deserves rebuke and denunciation for any device or attempt to gain from a Judge special personal consideration or favor. A self-respecting

independence in the discharge of professional duty, without denial or diminution of the courtesy and respect due the Judge's station, is the only proper foundation for cordial personal and official relations between Bench and Bar.

4. *When Counsel for an Indigent Prisoner.*

A lawyer assigned as counsel for an indigent prisoner ought not to ask to be excused for any trivial reason, and should always exert his best efforts in his behalf.

5. *The Defense or Prosecution of Those Accused of Crime.* It is the right of the lawyer to undertake the defense of a person accused of crime, regardless of his personal opinion as to the guilt of the accused; otherwise innocent persons, victims only of suspicious circumstances, might be denied proper defense. Having undertaken such defense, the lawyer is bound by all fair and honorable means, to present every defense that the law of the land permits, to the end that no person may be deprived of life or liberty, but by due process of law.

The primary duty of a lawyer engaged in public prosecution is not to convict, but to see that justice is done. The suppression of facts or the secreting of witnesses capable of establishing the innocence of the accused is highly reprehensible.

6. *Adverse Influences and Conflicting Interests.* It is the duty of a lawyer at the time of retainer to disclose to the client all the circumstances of his relations to the parties, and any interest in or connection with the controversy, which might influence the client in the selection of counsel.

It is unprofessional to represent conflicting interests, except by express consent of all concerned given after a full disclosure of the facts. Within the meaning of this canon, a lawyer represents conflicting interests when, in behalf of one client, it is his duty to contend for that which duty to another client requires him to oppose.

The obligation to represent the client with undivided fidelity and not to divulge his secrets or confidences forbids also the subsequent acceptance of retainers or employment from others in matters adversely affecting any interest of the client with respect to which confidence has been reposed.

7. *Professional Colleagues and Conflicts*

of Opinion. A client's proffer of assistance of additional counsel should not be regarded as evidence of want of confidence, but the matter should be left to the determination of the client. A lawyer should decline association as colleague if it is objectionable to the original counsel, but if the lawyer first retained is relieved, another may come into the case.

When lawyers jointly associated in a cause cannot agree as to any matter vital to the interest of the client, the conflict of opinion should be frankly stated to him for his final determination. His decision should be accepted unless the nature of the difference makes it impracticable for the lawyer whose judgment has been overruled to coöperate effectively. In this event it is his duty to ask the client to relieve him.

Efforts, direct or indirect, in any way to encroach upon the business of another lawyer, are unworthy of those who should be brethren at the Bar; but, nevertheless, it is the right of any lawyer, without fear or favor, to give proper advice to those seeking relief against unfaithful or neglectful counsel, generally after communication with the lawyer of whom the complaint is made.

8. *Advising Upon the Merits of a Client's Cause.* A lawyer should endeavor to obtain full knowledge of his client's cause before advising thereon, and he is bound to give a candid opinion of the merits and probable result of pending or contemplated litigation. The miscarriages to which justice is subject, by reason of surprises and disappointments in evidence and witnesses, and through mistakes of juries and errors of Courts, even though only occasional, admonish lawyers to beware of bold and confident assurances to clients, especially where the employment may depend upon such assurance. Whenever the controversy will admit of fair adjustment, the client should be advised to avoid or to end the litigation.

9. *Negotiations With Opposite Party.* A lawyer should not in any way communicate upon the subject of controversy with a party represented by counsel; much less should he undertake to negotiate or compromise the matter with him, but should deal only with his counsel. It is incumbent upon the lawyer most particularly to avoid

everything that may tend to mislead a party not represented by counsel, and he should not undertake to advise him as to the law.

10. *Acquiring Interest in Litigation.* The lawyer should not purchase any interest in the subject matter of the litigation which he is conducting.

11. *Dealing With Trust Property.* Money of the client or other trust property coming into the possession of the lawyer should be reported promptly, and except with the client's knowledge and consent should not be commingled with his private property or be used by him.

12. *Fixing the Amount of the Fee.* In fixing fees, lawyers should avoid charges which overestimate their advice and services, as well as those which undervalue them. A client's ability to pay cannot justify a charge in excess of the value of the service, though his poverty may require a less charge, or even none at all. The reasonable requests of brother lawyers, and of their widows and orphans without ample means, should receive special and kindly consideration.

In determining the amount of the fee, it is proper to consider: (1) the time and labor required, the novelty and difficulty of the questions involved and the skill requisite properly to conduct the cause; (2) whether the acceptance of employment in the particular case will preclude the lawyer's appearance for others in cases likely to arise out of the transaction, and in which there is a reasonable expectation that otherwise he would be employed, or will involve the loss of other business while employed in the particular case or antagonisms with other clients; (3) the customary charges of the Bar for similar services; (4) the amount involved in the controversy and the benefits resulting to the client from the services; (5) the contingency or the certainty of the compensation; and (6) the character of the employment, whether casual or for an established and constant client. No one of these considerations in itself is controlling. They are mere guides in ascertaining the real value of the service.

In fixing fees it should never be forgotten that the profession is a branch of the administration of justice and not a mere money-getting trade.

13. *Contingent Fees.* Contingent fees, where sanctioned by law, should be under the supervision of the Court, in order that clients may be protected from unjust charges.

14. *Swing a Client for a Fee.* Controversies with clients concerning compensation are to be avoided by the lawyer so far as shall be compatible with his self-respect and with his right to receive reasonable recompense for his services; and lawsuits with clients should be resorted to only to prevent injustice, imposition or fraud.

15. *How Far a Lawyer May Go in Supporting a Client's Cause.* Nothing operates more certainly to create or to foster popular prejudice against lawyers as a class, and to deprive the profession of that full measure of public esteem and confidence which belongs to the proper discharge of its duties than does the false claim, often set up by the unscrupulous in defense of questionable transactions, that it is the duty of the lawyer to do whatever may enable him to succeed in winning his client's cause.

It is improper for a lawyer to assert in argument his personal belief in his client's innocence or in the justice of his cause.

The lawyer owes "entire devotion to the interest of the client, warm zeal in the maintenance and defense of his rights and the exertion of his utmost learning and ability," to the end that nothing be taken or be withheld from him, save by the rules of law, legally applied. No fear of judicial disfavor or public unpopularity should restrain him from the full discharge of his duty. In the judicial forum the client is entitled to the benefit of any and every remedy and defense that is authorized by the law of the land, and he may expect his lawyer to assert every such remedy or defense. But it is steadfastly to be borne in mind that the great trust of the lawyer is to be performed within and not without the bounds of the law. The office of attorney does not permit, much less does it demand of him for any client, violation of law or any manner of fraud or chicanery. He must obey his own conscience and not that of his client.

16. *Restraining Clients from Improperities.* A lawyer should use his best efforts to restrain and to prevent his clients

from doing those things which the lawyer himself ought not to do, particularly with reference to their conduct towards Courts, judicial officers, jurors, witnesses and suitors. If a client persists in such wrongdoing the lawyer should terminate their relation.

17. *Ill Feeling and Personalities Between Advocates.* Clients, not lawyers, are the litigants. Whatever may be the ill-feeling existing between clients, it should not be allowed to influence counsel in their conduct and demeanor toward each other or toward suitors in the case. All personalities between counsel should be scrupulously avoided. In the trial of a cause it is indecent to allude to the personal history or the personal peculiarities and idiosyncrasies of counsel on the other side. Personal colloquies between counsel which cause delay and promote unseemly wrangling should also be carefully avoided.

18. *Treatment of Witnesses and Litigants.* A lawyer should always treat adverse witnesses and suitors with fairness and due consideration, and he should never minister to the malevolence or prejudices of a client in the trial or conduct of a cause. The client cannot be made the keeper of the lawyer's conscience in professional matters. He has no right to demand that his counsel shall abuse the opposite party or indulge in offensive personalities. Improper speech is not excusable on the ground that it is what the client would say if speaking in his own behalf.

19. *Appearance of Lawyer as Witness for His Client.* When a lawyer is a witness for his client, except as to merely formal matters, such as the attestation or custody of an instrument and the like, he should leave the trial of the case to other counsel. Except when essential to the ends of justice, a lawyer should avoid testifying in Court in behalf of his client.

20. *Newspaper Discussion of Pending Litigation.* Newspaper publications by a lawyer as to pending or anticipated litigation may interfere with a fair trial in the Courts and otherwise prejudice the due administration of justice. Generally they are to be condemned. If the extreme circumstances of a particular case justify a statement to the public, it is unprofes-

sional to make it anonymously. An *ex parte* reference to the facts should not go beyond quotation from the records and papers on file in the Court; but even in extreme cases it is better to avoid any *ex parte* statement.

21. *Punctuality and Expedition.* It is the duty of the lawyer not only to his client, but also to the Courts and to the public to be punctual in attendance, and to be concise and direct in the trial and disposition of causes.

22. *Candor and Fairness.* The conduct of the lawyer before the Court and with other lawyers should be characterized by candor and fairness.

It is not candid or fair for the lawyer knowingly to misquote the contents of a paper, the testimony of a witness, the language of the argument of opposing counsel, or the language of a decision or a text-book; or with knowledge of its invalidity, to cite as authority a decision that has been overruled, or a statute that has been repealed; or in argument to assert as a fact that which has not been proved, or in those jurisdictions where a side has the opening and closing arguments to mislead his opponent by concealing or withholding positions in his opening argument upon which his side then intends to rely.

It is unprofessional and dishonorable to deal other than candidly with the facts in taking the statements of witnesses, in drawing affidavits and other documents, and in the presentation of causes.

A lawyer should not offer evidence, which he knows the Court should reject, in order to get the same before the jury by argument for its admissibility, nor should he address to the Judge arguments upon any point not properly calling for determination by him. Neither should he introduce into an argument, addressed to the Court, remarks or statements intended to influence the jury or bystanders.

These and all kindred practices are unprofessional and unworthy of an officer of the law charged, as is the lawyer, with the duty of aiding in the administration of justice.

23. *Attitude Toward Jury.* All attempts to curry favor with juries by fawning, flattery or pretended solicitude for their

personal comfort are unprofessional. Suggestions of counsel, looking to the comfort or convenience of jurors, and propositions to dispense with argument, should be made to the Court out of the jury's hearing. A lawyer must never converse privately with jurors about the case; and both before and during the trial he should avoid communicating with them, even as to matters foreign to the cause.

24. *Right of Lawyer to Control the Incidents of the Trial.* As to incidental matters pending the trial, not affecting the merits of the cause, or working substantial prejudice to the rights of the client, such as forcing the opposite lawyer to trial when he is under affliction or bereavement; forcing the trial on a particular day to the injury of the opposite lawyer when no harm will result from a trial at a different time; agreeing to an extension of time for signing a bill of exceptions, cross interrogatories and the like, the lawyer must be allowed to judge. In such matters no client has a right to demand that his counsel shall be illiberal, or that he do anything therein repugnant to his own sense of honor and propriety.

25. *Taking Technical Advantage of Opposite Counsel; Agreements With Him.* A lawyer should not ignore known customs or practice of the Bar or of a particular Court, even when the law permits, without giving timely notice to the opposing counsel. As far as possible, important agreements, affecting the rights of clients, should be reduced to writing; but it is dishonorable to avoid performance of an agreement fairly made because it is not reduced to writing, as required by rules of Court.

26. *Professional Advocacy Other Than Before Courts.* A lawyer openly, and in his true character may render professional services before legislative or other bodies, regarding proposed legislation and in advocacy of claims before departments of government, upon the same principles of ethics which justify his appearance before the Courts; but it is unprofessional for a lawyer so engaged to conceal his attorneyship, or to employ secret personal solicitations, or to use means other than those addressed to the reason and understanding to influence action.

27. *Advertising, Direct or Indirect.* The

most worthy and effective advertisement possible, even for a young lawyer, and especially with his brother lawyers, is the establishment of a well-merited reputation for professional capacity and fidelity to trust. This cannot be forced, but must be the outcome of character and conduct. The publication or circulation of ordinary simple business cards, being a matter of personal taste or local custom, and sometimes of convenience, is not *per se* improper. But solicitation of business by circulars or advertisements, or by personal communications or interviews, not warranted by personal relations, is unprofessional. It is equally unprofessional to procure business by indirection through touters of any kind, whether allied real estate firms or trust companies advertising to secure the drawing of deeds or wills or offering retainers in exchange for executorships or trusteeships to be influenced by the lawyer. Indirect advertisement for business by furnishing or inspiring newspaper comments concerning causes in which the lawyer has been or is engaged, or concerning the manner of their conduct, the magnitude of the interests involved, the importance of the lawyer's positions, and all other like self-laudation, defy the traditions and lower the tone of our high calling, and are intolerable.

28. *Stirring up Litigation, Directly or Through Agents.* It is unprofessional for a lawyer to volunteer advice to bring a lawsuit, except in rare cases where ties of blood, relationship or trust make it his duty to do so. Stirring up strife and litigation is not only unprofessional, but it is indictable at common law. It is disreputable to hunt up defects in titles or other causes of action and inform thereof in order to be employed to bring suit, or to breed litigation by seeking out those with claims for personal injuries or those having any other grounds of action in order to secure them as clients, or to employ agents or runners for like purposes, or to pay or reward, directly or indirectly, those who bring or influence the bringing of such cases to his office, or to remunerate policemen, court or prison officials, physicians, hospital *attachés* or others who may succeed, under the guise of giving disinterested friendly advice, in influencing the criminal, the sick and the injured, the

ignorant or others, to seek his professional services. A duty to the public and to the profession devolves upon every member of the Bar, having knowledge of such practices upon the part of any practitioner, immediately to inform thereof to the end that the offender may be disbarred.

29. *Upholding the Honor of the Profession.* Lawyers should expose without fear or favor before the proper tribunals corrupt or dishonest conduct in the profession, and should accept without hesitation employment against a member of the Bar who has wronged his client. The counsel upon the trial of a cause in which perjury has been committed owe it to the profession and to the public to bring the matter to the knowledge of the prosecuting authorities. The lawyer should aid in guarding the Bar against the admission to the profession of candidates unfit or unqualified because deficient in either moral character or education. He should strive at all times to uphold the honor and to maintain the dignity of the profession and to improve not only the law but the administration of justice.

30. *Justifiable and Unjustifiable Litigations.* The lawyer must decline to conduct a civil cause or to make a defense when convinced that it is intended merely to harass or to injure the opposite party or to work oppression or wrong. But otherwise it is his right, and, having accepted retainer, it becomes his duty to insist upon the judgment of the Court as to the legal merits of his client's claim. His appearance in Court should be deemed equivalent to an assertion on his honor that in his opinion his client's case is one proper for judicial determination.

31. *Responsibility for Litigation.* No lawyer is obliged to act either as adviser or advocate for every person who may wish to become his client. He has the right to decline employment. Every lawyer upon his own responsibility must decide what business he will accept as counsel, what causes he will bring into Court for plaintiffs, what cases he will contest in Court for defendants. The responsibility for advising questionable transactions, for bringing questionable suits, for urging questionable defenses, is the lawyer's responsibility.

He cannot escape it by urging as an excuse that he is only following his client's instructions.

32. *The Lawyer's Duty in Its Last Analysis.* No client, corporate or individual, however powerful, nor any cause, civil or political, however important, is entitled to receive, nor should any lawyer render, any service or advice involving disloyalty to the law whose ministers we are, or disrespect of the judicial office, which we are bound to uphold, or corruption of any person or persons exercising a public office or private trust, or deception or betrayal of the public. When rendering any such improper service or advice, the lawyer invites and merits stern and just condemnation. Correspondingly, he advances the honor of his profession and the best interests of his client when he renders service or gives advice tending to impress upon the client and his undertaking exact compliance with the strictest principles of moral law. He must also observe and advise his client to observe the statute law, though until a statute shall have been construed and interpreted by competent adjudication, he is free and is entitled to advise as to its validity and as to what he conscientiously believes to be its just meaning and extent. But above all a lawyer will find his highest honor in a deserved reputation for fidelity to private trust and to public duty, as an honest man and as a patriotic and loyal citizen.

III

OATH OF ADMISSION

The general principles which should ever control the lawyer in the practice of his profession are clearly set forth in the following Oath of Admission to the Bar, formulated upon that in use in the State of Washington, and which conforms in its main outlines to the "duties" of lawyers as defined by statutory enactments in that and many other States of the Union¹—duties which they are sworn on admission to obey and for the wilful violation of which disbarment is provided:

¹ Alabama, California, Georgia, Idaho, Indiana, Iowa, Minnesota, Mississippi, Nebraska, North Dakota, Oklahoma, Oregon, South Dakota, Utah, Washington and Wisconsin. The oaths

I DO SOLEMNLY SWEAR:

I will support the Constitution of the United States and the Constitution of the State of

I will maintain the respect due to Courts of Justice and judicial officers;

I will not counsel or maintain any suit or proceeding which shall appear to me to be unjust, nor any defense except such as I believe to be honestly debatable under the law of the land;

I will employ for the purpose of maintaining the causes confided to me such means only as are consistent with truth and honor, and

administered on admission to the Bar in all the other States require the observance of the highest moral principle in the practice of the profession, but the duties of the lawyer are not as specifically defined by law as in the States named.

will never seek to mislead the Judge or jury by any artifice or false statement of fact or law;

I will maintain the confidence and preserve inviolate the secrets of my client, and will accept no compensation in connection with his business except from him or with his knowledge and approval;

I will abstain from all offensive personality, and advance no fact prejudicial to the honor or reputation of a party or witness, unless required by the justice of the cause with which I am charged;

I will never reject, from any consideration personal to myself, the cause of the defenseless or oppressed, or delay any man's cause for lucre or malice. SO HELP ME GOD.

We commend this form of oath for adoption by the proper authorities in all the States and Territories.

Principles of Medical Ethics of the American Medical Association

Adopted by the House of Delegates at Atlantic City, N. J., June 4, 1912

CHAPTER I

The Duties of Physicians to Their Patients

THE PHYSICIAN'S RESPONSIBILITY

SECTION 1.—A profession has for its prime object the service it can render to humanity; reward or financial gain should be a subordinate consideration. The practice of medicine is a profession. In choosing this profession an individual assumes an obligation to conduct himself in accord with its ideals.

PATIENCE, DELICACY AND SECRECY

SEC. 2.—Patience and delicacy should characterize all the acts of a physician. The confidences concerning individual or domestic life entrusted by a patient to a physician and the defects of disposition or flaws of character observed in patients during medical attendance should be held as a trust and should never be revealed except when imperatively required by the laws of the state. There are occasions, however, when a physician must determine whether or not his duty to society requires him to take definite action to protect a healthy individual from becoming infected, because the physician has knowledge, obtained through the confidences entrusted to him as

a physician, of a communicable disease to which the healthy individual is about to be exposed. In such a case, the physician should act as he would desire another to act toward one of his own family under like circumstances. Before he determines his course, the physician should know the civil law of his commonwealth concerning privileged communications.

PROGNOSIS

SEC. 3.—A physician should give timely notice of dangerous manifestations of the disease to the friends of the patient. He should neither exaggerate nor minimize the gravity of the patient's condition. He should assure himself that the patient or his friends have such knowledge of the patient's condition as will serve the best interests of the patient and the family.

PATIENTS MUST NOT BE NEGLECTED

SEC. 4.—A physician is free to choose whom he will serve. He should, however, always respond to any request for his assistance in an emergency or whenever temperate public opinion expects the service. Once having undertaken a case, a physician should not abandon or neglect the patient because the disease is deemed incurable; nor

should he withdraw from the case for any reason until a sufficient notice of a desire to be released has been given the patient or his friends to make it possible for them to secure another medical attendant.

CHAPTER II

The Duties of Physicians to Each Other and to the Profession at Large

ARTICLE I.—DUTIES TO THE PROFESSION

UPHOLD HONOR OF PROFESSION

SECTION 1.—The obligation assumed on entering the profession requires the physician to comport himself as a gentleman and demands that he use every honorable means to uphold the dignity and honor of his vocation, to exalt its standards and to extend its sphere of usefulness. A physician should not base his practice on an exclusive dogma or sectarian system, for "sects are implacable despots; to accept their thralldom is to take away all liberty from one's action and thought." (Nicon, father of Galen.)

DUTY OF MEDICAL SOCIETIES

SEC. 2.—In order that the dignity and honor of the medical profession may be upheld, its standards exalted, its sphere of usefulness extended, and the advancement of medical science promoted, a physician should associate himself with medical societies and contribute his time, energy and means in order that these societies may represent the ideals of the profession.

DEPORTMENT

SEC. 3.—A physician should be "an upright man, instructed in the art of healing." Consequently, he must keep himself pure in character and conform to a high standard of morals, and must be diligent and conscientious in his studies. "He should also be modest, sober, patient, prompt to do his whole duty without anxiety; pious without going so far as superstition, conducting himself with propriety in his profession and in all the actions of his life." (Hippocrates.)

ADVERTISING

SEC. 4.—Solicitation of patients by circulars or advertisements, or by personal communications or interviews, not warranted by personal relations, is unprofessional. It is equally unprofessional to procure patients

by indirection through solicitors or agents of any kind, or by indirect advertisement, or by furnishing or inspiring newspaper or magazine comments concerning cases in which the physician has been or is concerned. All other like self-laudations defy the traditions and lower the tone of any profession and so are intolerable. The most worthy and effective advertisement possible, even for a young physician, and especially with his brother physicians, is the establishment of a well-merited reputation for professional ability and fidelity. This cannot be forced, but must be the outcome of character and conduct. The publication or circulation of ordinary simple business cards, being a matter of personal taste or local custom, and sometimes of convenience, is not *per se* improper. As implied, it is unprofessional to disregard local customs and offend recognized ideals in publishing or circulating such cards.

It is unprofessional to promise radical cures; to boast of cures and secret methods of treatment or remedies; to exhibit certificates of skill or of success in the treatment of diseases; or to employ any methods to gain the attention of the public for the purpose of obtaining patients.

PATENTS AND PERQUISITES

SEC. 5.—It is unprofessional to receive remuneration from patents for surgical instruments or medicines; to accept rebates on prescriptions or surgical appliances, or perquisites from attendants who aid in the care of patients.

MEDICAL LAWS—SECRET REMEDIES

SEC. 6.—It is unprofessional for a physician to assist unqualified persons to evade legal restrictions governing the practice of medicine; it is equally unethical to prescribe or dispense secret medicines or other secret remedial agents, or manufacture or promote their use in any way.

SAFEGUARDING THE PROFESSION

SEC. 7.—Physicians should expose without fear or favor, before the proper medical or legal tribunals, corrupt or dishonest conduct of members of the profession. Every physician should aid in safeguarding the profession against the admission to its

ranks of those who are unfit or unqualified because deficient either in moral character or education.

ARTICLE II.—PROFESSIONAL SERVICES OF PHYSICIANS TO EACH OTHER

PHYSICIANS DEPENDENT ON EACH OTHER

SECTION 1.—Experience teaches that it is unwise for a physician to treat members of his own family or himself. Consequently, a physician should always cheerfully and gratuitously respond with his professional services to the call of any physician practicing in his vicinity, or of the immediate family dependents of physicians.

COMPENSATION FOR EXPENSES

SEC. 2.—When a physician from a distance is called on to advise another physician or one of his family dependents, and the physician to whom the service is rendered is in easy financial circumstances, a compensation that will at least meet the traveling expenses of the visiting physician should be proffered. When such a service requires an absence from the accustomed field of professional work of the visitor that might reasonably be expected to entail a pecuniary loss, such loss should, in par. at least, be provided for in the compensation offered.

ONE PHYSICIAN TO TAKE CHARGE

SEC. 3.—When a physician or a member of his dependent family is seriously ill, he or his family should select a physician from among his neighboring colleagues to take charge of the case. Other physicians may be associated in the care of the patient as consultants.

ARTICLE III.—DUTIES OF PHYSICIAN IN CONSULTATIONS

CONSULTATIONS SHOULD BE REQUIRED

SECTION 1.—In serious illness, especially in doubtful or difficult conditions, the physician should request consultations.

CONSULTATION FOR PATIENT'S BENEFIT

SEC. 2.—In every consultation, the benefit to be derived by the patient is of first importance. All the physicians interested in the case should be frank and candid with the patient and his family. There never is occasion for insincerity, rivalry or envy and these should never be permitted between consultants,

PUNCTUALITY

SEC. 3.—It is the duty of a physician, particularly in the instance of a consultation, to be punctual in attendance. When, however, the consultant or the physician in charge is unavoidably delayed, the one who first arrives should wait for the other for a reasonable time, after which the consultation should be considered postponed. When the consultant has come from a distance, or when for any reason it will be difficult to meet the physician in charge at another time, or if the case is urgent, or if it be the desire of the patient, he may examine the patient and mail his written opinion, or see that it is delivered under seal, to the physician in charge. Under these conditions, the consultant's conduct must be especially tactful; he must remember that he is framing an opinion without the aid of the physician who has observed the course of the disease.

PATIENT REFERRED TO SPECIALIST

SEC. 4.—When a patient is sent to one specially skilled in the care of the condition from which he is thought to be suffering, and for any reason it is impracticable for the physician in charge of the case to accompany the patient, the physician in charge should send to the consultant by mail, or in the care of the patient under seal, a history of the case, together with the physician's opinion and an outline of the treatment, or so much of this as may possibly be of service to the consultant; and as soon as possible after the case has been seen and studied, the consultant should address the physician in charge and advise him of the results of the consultant's investigation of the case. Both these opinions are confidential and must be so regarded by the consultant and by the physician in charge.

DISCUSSIONS IN CONSULTATION

SEC. 5.—After the physicians called in consultation have completed their investigations of the case, they may meet by themselves to discuss conditions and determine the course to be followed in the treatment of the patient. No statement or discussion of the case should take place before the patient or friends, except in the presence of all the physicians attending, or by their

common consent; and no opinions or prognostications should be delivered as a result of the deliberations of the consultants, which have not been concurred in by the consultants at their conference.

ATTENDING PHYSICIAN RESPONSIBLE

SEC. 6.—The physician in attendance is in charge of the case and is responsible for the treatment of the patient. Consequently, he may prescribe for the patient at any time and is privileged to vary the mode of treatment outlined and agreed on at a consultation whenever, in his opinion, such a change is warranted. However, at the next consultation, he should state his reasons for departing from the course decided on at the previous conference. When an emergency occurs during the absence of the attending physician, a consultant may provide for the emergency and the subsequent care of the patient until the arrival of the physician in charge, but should do no more than this without the consent of the physician in charge.

CONFLICT OF OPINION

SEC. 7.—Should the attending physician and the consultant find it impossible to agree in their view of a case another consultant should be called to the conference or the first consultant should withdraw. However, since the consultant was employed by the patient in order that his opinion might be obtained, he should be permitted to state the result of his study of the case to the patient, or his next friend in the presence of the physician in charge.

CONSULTANT AND ATTENDANT

SEC. 8.—When a physician has attended a case as a consultant, he should not become the attendant of the patient during that illness except with the consent of the physician who was in charge at the time of the consultation.

ARTICLE IV.—DUTIES OF PHYSICIANS IN CASES OF INTERFERENCE

CRITICISM TO BE AVOIDED

SECTION 1.—The physician, in his intercourse with a patient under the care of another physician, should observe the strictest caution and reserve; should give no dis-

ingenuous hints relative to the nature and treatment of the patient's disorder; nor should the course of conduct of the physician, directly or indirectly, tend to diminish the trust reposed in the attending physician.

SOCIAL CALLS ON PATIENT OF ANOTHER PHYSICIAN

SEC. 2.—A physician should avoid making social calls on those who are under the professional care of other physicians without the knowledge and consent of the attendant. Should such a friendly visit be made, there should be no inquiry relative to the nature of the disease or comment upon the treatment of the case, but the conversation should be on subjects other than the physical condition of the patient.

SERVICES TO PATIENT OF ANOTHER PHYSICIAN

SEC. 3.—A physician should never take charge of or prescribe for a patient who is under the care of another physician, except in an emergency, until after the other physician has relinquished the case or has been properly dismissed.

CRITICISM TO BE AVOIDED

SEC. 4.—When a physician does succeed another physician in the charge of a case, he should not make comments on or insinuations regarding the practice of the one who preceded him. Such comments or insinuations tend to lower the esteem of the patient for the medical profession and so react against the critic.

EMERGENCY CASES

SEC. 5.—When a physician is called in an emergency and finds that he has been sent for because the family attendant is not at hand, or when a physician is asked to see another physician's patient because of an aggravation of the disease, he should provide only for the patient's immediate need and should withdraw from the case on the arrival of the family physician after he has reported the condition found and the treatment administered.

WHEN SEVERAL PHYSICIANS ARE SUMMONED

SEC. 6.—When several physicians have been summoned in a case of sudden illness

or of accident, the first to arrive should be considered the physician in charge. However, as soon as the exigencies of the case permit, or on the arrival of the acknowledged family attendant or the physician the patient desires to serve him, the first physician should withdraw in favor of the chosen attendant; should the patient or his family wish some one other than the physician known to be the family physician to take charge of the case the patient should advise the family physician of his desire. When, because of sudden illness or accident, a patient is taken to a hospital, the patient should be returned to the care of his known family physician as soon as the condition of the patient and the circumstances of the case warrant this transfer.

A COLLEAGUE'S PATIENT

SEC. 7.—When a physician is requested by a colleague to care for a patient during his temporary absence, or when, because of an emergency, he is asked to see a patient of a colleague, the physician should treat the patient in the same manner and with the same delicacy as he would have one of his own patients, cared for under similar circumstances. The patient should be returned to the care of the attending physician as soon as possible.

RELINQUISHING PATIENT TO REGULAR ATTENDANT

SEC. 8.—When a physician is called to the patient of another physician during the enforced absence of that physician, the patient should be relinquished on the return of the latter.

SUBSTITUTING IN OBSTETRIC WORK

SEC. 9.—When a physician attends a woman in labor in the absence of another who has been engaged to attend, such physician should resign the patient to the one first engaged, upon his arrival the physician is entitled to compensation for the professional services he may have rendered.

ARTICLE V.—DIFFERENCES BETWEEN PHYSICIANS ARBITRATION

SECTION 1.—Whenever there arises between physicians a grave difference of

opinion which cannot be promptly adjusted, the dispute should be referred for arbitration to a committee of impartial physicians, preferably the Board of Censors of a component county society of the American Medical Association.

ARTICLE VI.—COMPENSATION LIMITS OF GRATUITOUS SERVICE

SECTION 1.—The poverty of a patient and the mutual professional obligation of physicians should command the gratuitous services of a physician. But institutions endowed by societies, and organizations for mutual benefit, or for accident, sickness and life insurance, or for analogous purposes, should be accorded no such privileges.

CONTRACT PRACTICE

SEC. 2.—It is unprofessional for a physician to dispose of his services under conditions that make it impossible to render adequate service to his patient or which interfere with reasonable competition among the physicians of a community. To do this is detrimental to the public and to the individual physician, and lowers the dignity of the profession.

SECRET DIVISION OF FEES CONDEMNED

SEC. 3.—It is detrimental to the public good and degrading to the profession, and therefore unprofessional, to give or to receive a commission. It is also unprofessional to divide a fee for medical advice or surgical treatment, unless the patient or his next friend is fully informed as to the terms of the transaction. The patient should be made to realize that a proper fee should be paid the family physician for the service he renders in determining the surgical or medical treatment suited to the condition, and in advising concerning those best qualified to render any special service that may be required by the patient.

CHAPTER III

The Duties of the Profession to the Public
PHYSICIANS AS CITIZENS

SECTION 1.—Physicians, as good citizens and because their professional training specially qualifies them to render this service, should give advice concerning the public health of the community. They

should bear their full part in enforcing its laws and sustaining the institutions that advance the interests of humanity. They should cooperate especially with the proper authorities in the administration of sanitary laws and regulations. They should be ready to counsel the public on subjects relating to sanitary police, public hygiene and legal medicine.

**PHYSICIANS SHOULD ENLIGHTEN PUBLIC—
DUTIES IN EPIDEMICS**

SEC. 2.—Physicians, especially those engaged in public health work, should enlighten the public regarding quarantine regulations; on the location, arrangement and dietaries of hospitals, asylums, schools, prisons and similar institutions; and concerning measures for the prevention of epidemic and contagious diseases. When an epidemic prevails, a physician must continue his labors for the alleviation of suffering people, without regard to the risk to his own health or life or to financial return. At all times, it is the duty of the physician to notify the properly constituted public health authorities of every case of communicable disease under his care, in accordance with the laws, rules and regulations of the health authorities of the locality in which the patient is.

PUBLIC WARNED

SEC. 3.—Physicians should warn the public against the devices practiced and the false pretensions made by charlatans which may cause injury to health and loss of life.

PHARMACISTS

SEC. 4.—By legitimate patronage, physicians should recognize and promote the profession of pharmacy; but any pharmacist, unless he be qualified as a physician, who assumes to prescribe for the sick, should be denied such countenance and support. Moreover, whenever a druggist or pharmacist dispenses deteriorated or adulterated drugs, or substitutes one remedy for another designated in a prescription, he thereby forfeits all claims to the favorable consideration of the public and physicians.

CONCLUSION

While the foregoing statements express in a general way the duty of the physician to his patients, to other members of the profession and to the profession at large, as well as of the profession to the public, it is not to be supposed that they cover the whole field of medical ethics, or that the physician is not under many duties and obligations besides these herein set forth. In a word, it is incumbent on the physician that under all conditions, his bearing toward patients, the public and fellow practitioners should be characterized by a gentlemanly deportment and that he constantly should behave toward others as he desires them to deal with him. Finally, these principles are primarily for the good of the public, and their enforcement should be conducted in such a manner as shall deserve and receive the endorsement of the community.

Code of Ethics of the Graduate Nurses' Association of the State of Pennsylvania

Adopted by the Association in 1904

SECTION 1.—There is no profession open to women, from the members of which greater purity of character and a higher standard of moral excellence are required, than that of nursing, and every one who has entered the profession has incurred an obligation to maintain its dignity and honor.

SEC. 2.—A nurse can best do honor to her Association by her personal conduct, and by the high character of her professional work. When a nurse becomes a member of the Association she tacitly admits that she owes it her allegiance.

SEC. 3.—Every member of the Association should feel it her duty to further its interests, not only by attendance at the meetings and the payment of dues, but also by giving her hearty support to all work for the elevation and advancement of the Association, and by interesting the public in such work in all legitimate ways.

SEC. 4.—A nurse as a good citizen should do all in her power to improve the hygienic conditions of the community in which she resides.

The Code of Ethics of the National Dental Association

ARTICLE I

THE DUTIES OF THE PROFESSION TO THEIR PATIENTS

SECTION 1.—The dentist should be ever ready to respond to the wants of his patrons, and should fully recognize the obligations involved in the discharge of his duties toward them. As he is in most cases unable to correctly estimate the character of his operations, his own sense of right must guarantee faithfulness in their performance. His manner should be firm, yet kind and sympathizing so as to gain the respect and confidence of his patients, and even the simplest case committed to his care should receive that attention which is due to operations performed on living, sensitive tissue.

SEC. 2.—It is not to be expected that the patient will possess a very extended or a very accurate knowledge of professional matters. The dentist should make due allowance for this, patiently explaining many things which may seem quite clear to himself, thus endeavoring to educate the public mind so that it will properly appreciate the beneficent efforts of our profession. He should encourage no false hopes by promising success when, in the nature of the case, there is uncertainty.

SEC. 3.—The dentist should be temperate in all things, keeping both mind and body in the best possible health, that his patients may have the benefit of that clearness of judgment and skill which is their right.

ARTICLE II

MAINTAINING PROFESSIONAL CHARACTER

SECTION 1.—A member of the dental profession is bound to maintain its honor and to labor earnestly to extend its sphere of usefulness. He should avoid everything in language and conduct calculated to dishonor his profession, and should ever manifest a due respect for his brethren. The young should show special respect to their seniors; the aged, special encouragement to their juniors.

SEC. 2.—It is unprofessional to resort to public advertisement, cards, handbills, posters, or signs, calling attention to peculiar

styles of work, lowness of prices, special modes of operating; or to claim superiority over neighboring practitioners; to publish reports of cases or certificates in the public prints, to circulate or recommend nostrums; or to perform any other similar acts. But nothing in this section shall be so construed as to imply that it is unprofessional for dentists to announce in the public prints, or by cards, simply their names, occupation, and place of business, or in the same manner to announce their removal, absence from or return to business, or to issue to their patients appointment cards having a fee bill for professional services thereon.

SEC. 3.—When consulted by the patient of another practitioner the dentist should guard against inquiries or hints disparaging to the family dentist or calculated to weaken the patient's confidence in him; and if the interest of the patient will not be endangered thereby, the case should be temporarily treated, and referred back to the family dentist.

SEC. 4.—When general rules shall have been adopted by members of the profession practicing in the same localities in relation to fees, it is unprofessional and dishonorable to depart from these rules, except when variation of circumstances require it. And it is ever to be regarded as unprofessional to warrant operations as an inducement to patronage.

ARTICLE III

CONSULTATIONS

Consultations should be promoted in difficult or protracted cases, as they give rise to confidence, energy, and broader views in practice. In consultations that courtesy and just dealing should be especially observed.

ARTICLE IV

THE RELATIVE DUTIES OF DENTISTS AND PHYSICIANS

Dental surgery is a specialty in medical science. Physicians and dentists should both bear this in mind. The dentist is professionally limited to diseases of the dental organs and adjacent parts. With these he

should be more familiar than the general practitioner is expected to be; and while he recognizes the broader knowledge of the physician in regard to diseases of the general system, the latter is under equal obligations to respect his higher attainments in his specialty.

ARTICLE V

THE MUTUAL DUTIES OF THE PROFESSION AND THE PUBLIC

Dentists are frequent witnesses, and at the same time the best judges, of the im-

sitions perpetrated by quacks, and it is their duty to enlighten and warn the public in regard to them. For this and many other benefits conferred by the competent and honorable dentist, the profession is entitled to the confidence and respect of the public, who should always discriminate in favor of the true man of science and integrity against the empiric and the imposter. The public has no right to tax the time and talents of the profession in examinations, prescriptions, or in any other way, without proper remuneration.

Code of Ethics of the American Pharmaceutical Association

Adopted in 1852

The American Pharmaceutical Association, composed of Pharmacutists and Druggists throughout the United States, feeling a strong interest in the success and advancement of their profession in its practical and scientific relations, and also impressed with the belief that no amount of knowledge and skill will protect themselves and the public from the ill effects of an undue competition, and the temptations to gain at the expense of quality, unless they are upheld by high moral obligations in the path of duty, have subscribed to the following Code of Ethics for the government of their professional conduct.

ARTICLE 1.—As the practice of pharmacy can only become uniform by an open and candid intercourse being kept up between apothecaries and druggists among themselves and each other, by the adoption of the National Pharmacopoeia as a guide in the preparation of official medicines, and by the discontinuance of secret formulæ and the practices arising from a quackish spirit, and by an encouragement of that esprit de corps which will prevent a resort to those disreputable practices arising out of an injurious and wicked competition; Therefore, the members of this Association agree to uphold the use of the Pharmacopoeia in their practice; to cultivate brotherly feeling among the members, and to discountenance quackery and dishonorable competition in their business.

ART. 2.—As labor should have its just

reward, and as skill, knowledge and responsibility required in the practice of pharmacy are great, the remuneration of the pharmacist's services should be proportioned to these, rather than to the market value of the preparations vended. The rate of charges will necessarily vary with geographical position, municipal location, and other circumstances of a permanent character, but a resort to intentional and unnecessary reduction in the rate of charges among apothecaries, with a view to gaining at the expense of their brethren, is strongly discountenanced by this Association as productive of evil results.

ART. 3.—The first duty of the apothecary, after duly preparing himself for his profession, being to procure good drugs and preparations (for without these his skill and knowledge are of small avail), he frequently has to rely on the good faith of the druggist for their selection. Those druggists whose knowledge, skill and integrity enable them to conduct their business faithfully, should be encouraged, rather than those who base their claims of patronage on the cheapness of their articles solely. When accidentally or otherwise, a deteriorated, or adulterated drug or medicine is sent to the apothecary, he should invariably return it to the druggist, with a statement of its defects. What is too frequently considered a mere error of trade on the part of the druggist, becomes a highly culpable act when countenanced by the apothecary; hence, when repetitions of

such frauds occur, they should be exposed for the benefit of the profession. A careful but firm pursuit of this course would render well-disposed druggists more careful and deter the fraudulently inclined from a resort to their disreputable practices.

ART. 4.—As the practice of pharmacy is quite distinct from the practice of medicine, and has been found to flourish in proportion as its practitioners have confined their attention to its requirements; and as the conduction of the business of both professions by the same individual involves pecuniary temptations which are often not compatible with a conscientious discharge of duty; we consider that the members of this Association should discountenance all such professional amalgamation; and in conducting business at the counter, should avoid prescribing for diseases when practicable, referring applicants for medical advice to the physician. We hold it as unprofessional and highly reprehensible for apothecaries to allow any percentage or commission to physicians on their prescriptions, as unjust to the public, and hurtful to the independence and self-respect of both parties concerned. We also consider that the practice of some physicians (in places where good apothecaries are numerous), of obtaining medicines at low prices from the latter, and selling them to their patients, is not only unjust and unprofessional, but deserving the censure of all high-minded medical men.

ART. 5.—The important influence exerted on the practice of pharmacy by the large

proportion of physicians who have resigned its duties and emoluments to the apothecary, are reasons why he should seek their favorable opinion and cultivate their friendship, by earnest endeavors to furnish their patients with pure and well-prepared medicines. As physicians are liable to commit errors in writing their prescriptions, involving serious consequences to health and reputation if permitted to leave the shop, the apothecary should always, when he deems an error has been made, consult the physician before proceeding; yet in the delay which must necessarily occur, it is his duty, when possible, to accomplish the interview without compromising the reputation of the physician. On the other hand, when apothecaries commit errors involving ill consequences, the physician, knowing the constant liability to error, should feel bound to screen them from undue censure, unless the result of a culpable negligence.

ART. 6.—As we owe a debt of gratitude to our predecessors for the researches and observations which have so far advanced our scientific art, we hold that every apothecary and druggist is bound to contribute his mite toward the same fund, by noting the new ideas and phenomena which may occur in the course of his business, and publishing them, when of sufficient consequence, for the benefit of the profession.

This code of ethics is evidently in need of revision. The following code is proposed for adoption at the annual meeting of the American Pharmaceutical Association in the autumn of 1922.

Principles of Pharmaceutical Ethics

Proposed by Charles H. LaWall for Adoption by the American Pharmaceutical Association at its Annual Meeting in 1922

CHAPTER I

THE DUTIES OF THE PHARMACIST IN CONNECTION WITH HIS SERVICES TO THE PUBLIC

Pharmacy has for its primary object the service which it can render to the public in safeguarding the handling, sale, compounding and dispensing of medicinal substances.

The practice of Pharmacy demands knowledge, skill and integrity on the part of

those engaged in it. Pharmacists are required to pass certain educational tests in order to qualify for registration under the laws of most of our states. These various states restrict the practice of Pharmacy to those qualifying according to the regulatory requirements thereby granting to them a special privilege which is denied other citizens.

In return the states expect the Pharma-

cist to recognize his responsibility to the community and to fulfil his professional obligations honorably and with due regard for the physical well being of society.

The Pharmacist should uphold the accepted standards of the United States Pharmacopoeia and the National Formulary for articles which are official in either of these works and should, as far as possible, encourage the use of these official drugs and preparations and discourage the use of proprietaries and nostrums. He should use only drugs and chemicals of the best quality obtainable for prescription filling and for sale when the articles are to be used for medicinal purposes.

He should neither buy, sell nor use substandard drugs except for uses which are not in any way connected with medicinal purposes. When a substance is sold for technical use the quality furnished should be governed by the grade required for the stated purpose.

The Pharmacist should be properly remunerated by the public for his knowledge and skill when used in its behalf in compounding prescriptions, and his fee for such professional work as well as the cost of the ingredients.

The Pharmacist should not sell or dispense powerful drugs and poisons indiscriminately to persons not properly qualified to administer or use them, and should use every proper precaution to safeguard the public from poisons and from all habit-forming medicines.

The Pharmacist, being legally entrusted with the dispensing and sale of narcotic drugs and alcoholic liquors, should merit this responsibility by upholding and conforming to the laws and regulations governing the distribution of these substances.

The Pharmacist should seek to enlist and merit the confidence of his patrons and when this confidence is won it should be jealously guarded and never abused by extortion or misrepresentation or in any other manner.

The Pharmacist should consider the knowledge which he gains of their ailments, and the confidences of his patrons regarding these matters as entrusted to his honor, and he should never divulge such facts unless compelled to do so by law.

The Pharmacist should hold the health and safety of his patrons to be of first consideration; he should make no attempt to prescribe or to treat diseases or strive to sell nostrums or specifics simply for the sake of profit. When an epidemic prevails, the Pharmacist should continue his labors for the alleviation of suffering without regard to risk of his own health and without consideration of emolument.

He should keep his store clean, neat and sanitary in all its departments and should be well supplied with accurate measuring and weighing devices and other suitable apparatus for the proper performance of his professional duties.

It is considered inimical to public welfare for the Pharmacist to have any clandestine arrangement with any physician in which fees are divided or in which secret prescriptions are concerned.

Pharmacists should primarily be good citizens, should uphold and defend the laws of the state and nation. They should inform themselves concerning the laws, particularly those relating to food and drug adulteration and those pertaining to health and sanitation and should always be ready to coöperate with the proper authorities having charge of the enforcement of the laws.

The Pharmacist should be willing to join in any constructive effort to promote the public welfare and he should share his public and private conduct and deeds so as to entitle him to the respect and confidence of the community in which he practices.

CHAPTER II

THE DUTIES OF THE PHARMACIST IN HIS RELATIONS TO THE PHYSICIAN

The Pharmacist even when urgently requested so to do should always refuse to prescribe or attempt diagnoses. He should under such circumstances, refer applicants for medical aid to a reputable legally qualified physician. In cases of extreme emergency as in accident or sudden illness on the street in which persons are brought to him pending the arrival of a physician such prompt action should be taken to prevent suffering as is dictated by humanitarian impulses and guided by scientific knowledge and common sense.

The Pharmacist should not, under any circumstances, substitute one article for another, or one make of an article for another in a prescription, without the consent of the physician who wrote it. No essential change should be made in a physician's prescription except such as is warranted by correct pharmaceutical procedure, nor any that will interfere with the obvious intent of the prescriber, as regards therapeutic action.

He should follow the physician's directions explicitly in the matter of refilling prescriptions, copying the formula upon the label or giving a copy of the prescription to the patient. He should not add any extra directions or caution or poison labels without due regard for the wishes of the prescriber, providing the safety of the patient is not jeopardized.

Whenever there is doubt as to the interpretation of the physician's prescription or directions, he should invariably confer with the physician in order to avoid a possible mistake or an unpleasant situation.

He should never discuss the therapeutic effect of a physician's prescription with a patron or disclose details of composition which the physician has withheld, suggesting to the patient that such details can be properly discussed with the prescriber only.

Where an obvious error or omission in a prescription is detected by the Pharmacist, he should protect the interests of his patron and also the reputation of the physician by conferring confidentially upon the subject, using the utmost caution and delicacy in handling such an important matter.

CHAPTER III

THE DUTIES OF PHARMACISTS TO EACH OTHER AND TO THE PROFESSION AT LARGE

The Pharmacist should strive to perfect and enlarge his professional knowledge. He should contribute his share toward the scientific progress of his profession and encourage and participate in research, investigation and study.

He should associate himself with pharmaceutical organizations whose aims are compatible with this code of ethics and to whose membership he may be eligible. He should contribute his share of time and

energy to carrying on the work of these organizations and promoting their welfare. He should keep himself informed upon professional matters by reading current pharmaceutical and medical literature.

He should perform no act, nor should he be a party to any transaction which will bring discredit to his profession or in any way bring criticism upon it, nor should he unwarrantedly criticize a fellow pharmacist or do anything to diminish the trust reposed in the practitioners of pharmacy.

The Pharmacist should expose any corrupt or dishonest conduct of any member of his profession which comes to his certain knowledge, through those accredited processes provided by the civil laws or the rules and regulations of pharmaceutical organizations, and he should aid in driving the unworthy out of the calling.

He should not allow his name to be used in connection with advertisements or correspondence for furthering the sale of nostrums or accept agencies for such.

He should courteously aid a fellow pharmacist who in an emergency needs supplies. Such transactions had better be made in the form of a sale rather than by borrowing, as is often the custom.

He should not aid any person to evade legal requirements regarding time and experience by carelessly or improperly endorsing or approving statements to which he would not be willing to make affidavit.

He should not undersell a fellow pharmacist for the sake of commercial advantage.

He should not imitate the labels of his competitors or take any other unfair advantage of merited professional or commercial success. When a bottle or package of a medicine is brought to him to be filled, he should remove all other labels and place his own thereon unless the patron requests otherwise.

He should not fill orders which come to him by mistake, being originally intended for a competitor.

He should never request a copy of a prescription from another pharmacist. It is the patient's duty to attend to this if he wishes to make a change in pharmacists.

He should deal fairly with manufacturers and wholesale druggists from whom he pur-

chases his supplies; all goods received in error or excess and all undercharges should be as promptly reported as are shortages and overcharges.

He should earnestly strive to follow all trade regulations and rules, promptly meet all obligations and closely adhere to all contracts and agreements.

Code of Ethics Adopted by the American Society of Mechanical Engineers in June 1914

A. GENERAL PRINCIPLES

It is not assumed that this code shall define in detail the duties and obligations of engineers under all possible circumstances. It is an axiom that engineers in all their professional relations should be governed by principles of honor, honesty, strict fidelity to trusts imposed upon them, and courteous behavior toward all. The following sections are framed to cover situations arising most frequently in engineers' work.

It is the duty of engineers to satisfy themselves to the best of their ability that the enterprises with which they become identified are of legitimate character. If an engineer after becoming associated with an enterprise finds it to be of questionable character, he should sever his connection with it as soon as practicable, avoiding in so doing reflections on his previous associates.

B. THE ENGINEER'S RELATIONS TO CLIENT OR EMPLOYER

The engineer should consider the protection of a client's or employer's interests his first obligation, and therefore should avoid every act contrary to this duty. If any other considerations, such as professional obligations or restrictions, interfere with his meeting the legitimate expectation of a client or employer, the engineer should so inform him.

An engineer cannot honorably accept compensation, financial or otherwise, from two or more parties having conflicting interests without the consent of all parties. The engineer, in whatever capacity, whether consulting, designing, installing, or operating, must not accept commissions, directly or indirectly, from parties dealing with his client or employer. The only condition under which such commissions may honor-

ably be accepted is when they are given with the full knowledge and approval of all parties concerned.

An engineer called upon to decide on the use of inventions, apparatus, or anything in which he has a financial interest, should make his status clearly understood by those employing him.

The engineer, in conformity with the practice in other professions, should not offer or execute a bond to guarantee the performance of his work. The client's reliance for the satisfactory execution of his work should be the professional reputation and experience of the engineer.

An engineer in independent practice may be employed by more than one party, when the interests of the several parties do not conflict; and it should be understood that he is not expected to devote his entire time to the work of one, but is free to carry out other engagements. A consulting engineer permanently retained by a party, should notify other prospective clients of this affiliation before entering into relations with them, if in his opinion, the interests might conflict.

Before any consulting engineer takes over the work of another consulting engineer he should ask the client his reasons for desiring to change engineers and unless the consulting engineer is entirely satisfied that the client has good and sufficient reasons for making the change he should confer with the present incumbent before accepting the work.

Consultations should be encouraged in cases of doubt or unusual responsibility. The aim should be to give the client the advantage of collective skill. Discussions should be confidential. Consulting engineers should not say or do anything to impair confidence in the engineer in charge unless it is apparent that he is wholly

incompetent or the interests of the profession so require.

Engineers acting as experts in legal and other cases, in making reports and testifying, should not depart from the true statement of results based on sound engineering principles. To base reports or testimony upon theories not so founded is unprofessional.

An engineer should make every effort to remedy dangerous defects in apparatus or structures or dangerous conditions of operation, and should immediately bring these to the attention of his client or employer. As failure of any engineering work reflects upon the whole profession, every engineer owes it to his professional associates as well as to himself that a reasonable degree of safety be provided in all work undertaken.

C. OWNERSHIP OF ENGINEERING RECORDS AND DATA

It is desirable that an engineer undertaking for others work in connection with which he may make improvements, inventions, plans, designs or other records should first enter into an agreement regarding their ownership.

If an engineer uses information which is not common knowledge or public property, but which he obtains from a client or employer, resulting in plans, designs, or other records, these should be regarded as the property of his client or employer.

If a consulting engineer uses only his own knowledge, or information, which by prior publication, or otherwise, is public property and obtains no engineering data from a client or employer, except performance specifications or routine information; then in the absence of an agreement to the contrary, the results in the form of inventions, plans, designs, or other records should be regarded as the property of the engineer, and the client or employer should be entitled to their use only in the case for which the engineer was employed.

All work and results accomplished by an engineer in independent practice in the form of inventions, plans, designs, or other records, which are outside of the field of engineering for which a client or employer has retained him, should be regarded as

the engineer's property unless there is an agreement to the contrary.

When an engineer or manufacturer builds apparatus from designs supplied to him by a customer, the designs remain the property of the customer and should not be duplicated by the engineer or manufacturer for others without express permission. When the engineer or manufacturer and a customer jointly work out designs and plans or develop inventions, a clear understanding should be reached before the beginning of the work regarding the respective rights or ownership in any inventions, designs, or matters of similar character, that may result.

Any engineering data or information which an engineer obtains from his client or employer, or which he creates as a result of such information, must be considered confidential by the engineer; and while he is justified in using such data or information in his own practice as forming part of his professional experience, its publication without express permission is improper.

Designs, data, records and notes made by an employe and referring exclusively to his employer's work, should be regarded as his employer's property.

A customer, in buying apparatus, does not acquire any right in its design, but only the use of the apparatus, purchased. A client does not acquire any right to the plans made by a consulting engineer except for the specific case for which they were made, unless there is an agreement to the contrary.

D. THE ENGINEER'S RELATIONS TO THE PUBLIC

The engineer should endeavor to assist the public to a fair and correct general understanding of engineering matters, to extend the general knowledge of engineering, and to discourage the appearance of untrue, unfair or exaggerated statements on engineering subjects in the press or elsewhere, especially if these statements may lead to, or are made for the purpose of, inducing the public to participate in unworthy enterprises.

Technical discussions and criticisms of engineering subjects should not be conducted

in the public press, but before engineering societies or in technical publications.

It is desirable that the first technical descriptions of inventions, or other engineering advances, should not be made through the public press, but before engineering societies or through technical publications.

It is unprofessional to give an opinion on a subject without being fully informed as to all the facts relating thereto and as to the purposes for which the information is asked. The opinion should contain a full statement of the conditions under which it applies.

Engineers engaged in private practice should limit their advertising to professional cards and modest signs in conformity with the practice of other professions.

E. THE ENGINEER'S RELATIONS TO THE ENGINEERING FRATERNITY

The engineer should take an interest in and assist his fellow engineers by exchange of general information and experience, by instruction and similar aid, through the engineering societies, the engineering schools, or other means. He should endeavor to protect all reputable engineers from misrepresentation.

The engineer should take care that credit for engineering work is attributed to those who, so far as his knowledge of the matter goes, are the real authors of such work.

Criticism of the work of one engineer by another should be broad and generous with the facts plainly stated. The success or failure of one member reflects credit or discredit on the whole profession.

The attitude of superiors toward subordinates should be that of helpfulness

and encouragement. The attitude of subordinates to superiors should be one of loyalty and diligent support. The treatment of each by the other should be open and frank.

The attitude of an engineer toward contractors should be one of helpful coöperation. Tact and courtesy should be combined with firmness. An engineer should hold a judicial attitude toward both parties to a contract for the execution of which he is responsible.

An engineer in responsible charge of work should not permit non-technical persons to overrule his engineering judgment on purely engineering grounds.

F. INTERPRETATION

If two or more engineers, members of this Society, disagree as to the interpretation of this Code, or as to the proper rules of conduct which should govern them in professional relations to each other, they may agree to refer the matter to a standing committee of the Society on the interpretation of the Code. Each party shall submit a statement of his position in writing, and the committee shall render a decision. A permanent record shall be made of the cases so submitted and decided.

Amendments or additions to this Code may be made by the standing committee on interpretation of the Code, subject to the approval of the Council.

Respectfully submitted,
CHARLES W. BAKER, *Chmn.*
CHARLES T. MAIN,
E. D. MEIER,
SPENCER MILLER,
C. R. RICHARDS,

Members of Committee on Code of Ethics.

Code of Ethics of the American Society of Civil Engineers, Adopted September 2, 1914

It shall be considered unprofessional and inconsistent with honorable and dignified bearing for any member of the American Society of Civil Engineers:

1. To act for his clients in professional matters otherwise than as a faithful agent or trustee, or to accept any remuneration

other than his stated charges for services rendered his clients.

2. To attempt to injure falsely or maliciously, directly or indirectly, the professional reputation, prospects, or business, of another Engineer.

3. To attempt to supplant another En-

gineer after definite steps have been taken toward his employment.

4. To complete with another Engineer for employment on the basis of professional charges, by reducing his usual charges and in this manner attempting to underbid after being informed of the charges named by another.

5. To review the work of another Engineer for the same client, except with the knowledge or consent of such Engineer, or unless the connection of such Engineer with the work has been terminated.

6. To advertise in self-laudatory language, or in any other manner derogatory to the dignity of the Profession.

The Code of Ethics of the Engineering Institute of Canada, Incorporated 1887 as the Canadian Society of Civil Engineers

Every member of the Institute shall observe and be bound by the following regulations:—

1. He shall act in all professional matters strictly in a judiciary manner with regard to any clients whom he may advise and his charges to such clients shall constitute his only remuneration in connection with such work, except as provided by Clause 4.

2. He shall not accept any trade commissions, discounts, allowances, or any indirect profit in connection with any work which he is engaged to design or superintend or with professional business which may be entrusted to him.

3. He shall not, while acting in a professional capacity, be at the same time, without disclosing the fact in writing to his clients, a director or member, or a shareholder in, or act as agent for, any contracting or manufacturing company or firm or business with which he may have occasion to deal on behalf of his clients, or have any financial interest in such a business.

4. He shall not receive directly or indi-

rectly any royalty, gratuity or commission on any patented or protected article or process used on work which he is carrying out for his clients, unless and until such royalty, gratuity or commission has been authorized in writing by those clients.

5. He shall not improperly solicit professional work, either directly or by an Agent, nor shall he pay, by commission or otherwise, any person who may introduce clients to him.

6. He shall not be the medium of payments made on his client's behalf to any Contractor or business firm (unless specially so requested by his clients) but shall only issue certificates or recommendations for payment by his clients.

Any alleged breach of these regulations or any alleged professional misconduct by a member which may be brought before the Council, properly vouched for and supported by sufficient evidence, shall be investigated, and if proved, shall be dealt with by the Council, either by the expulsion of the offender from the Institute or in such other manner as the Council may think fit.

Code of Principles of Professional Conduct of the American Institute of Electrical Engineers¹

Adopted by the Board of Directors, March 8, 1912

A. General Principles.

B. The Engineer's Relations to Client or Employer.

C. Ownership of Engineering Records and Data.

D. The Engineer's Relations to the Public.

E. The Engineer's Relations to the Engineering Fraternity.

F. Amendments.

¹HISTORY OF THE CODE

At the Milwaukee Convention in May, 1906, Dr. Schuyler Skaats Wheeler delivered his presidential address on "Engineering Honor." It was

While the following principles express, generally, the engineer's relations to client, employer, the public, and the engineering fraternity, it is not presumed that they define all of the engineer's duties and obligations.

A. GENERAL PRINCIPLES

1. In all of his relations the engineer should be guided by the highest principles of honor.

2. It is the duty of the engineer to satisfy himself to the best of his ability that the enterprises with which he becomes identified are of legitimate character. If after becoming associated with an enterprise he finds it to be of questionable character, he should sever his connection with it as soon as practicable.

B. THE ENGINEER'S RELATIONS TO CLIENT OR EMPLOYER

3. The engineer should consider the protection of a client's or employer's interests his first professional obligation, and therefore should avoid every act contrary to this duty. If any other considerations, such as professional obligations or restrictions, interfere with his meeting the legitimate expectation of a client or employer, the engineer should inform him of the situation.

the sense of the Convention that the ideas contained in this address should be embodied in a Code of Ethics for the electrical engineering profession, and to this end the following committee was appointed in October, 1906:

SCHUYLER SKAATS WHEELER, *Chairman*

H. W. BUCK CHARLES P. STEINMETZ

In May, 1907, the committee reported a code to the President and Board of Directors for discussion at the June Convention at Niagara Falls. It was discussed and adopted by the Convention but later the adoption had to be set aside on account of the provisions of the Constitution prohibiting conventions from acting upon questions affecting the Institute's organization or policy.

It was taken up by the Board of Directors on August 30, 1907, revised, printed and submitted to the membership for suggestions to be sent to a new committee appointed by President Stott.

It lay dormant until June, 1911, when, in accordance with a resolution of the Board of Directors, President Jackson appointed a committee.

4. An engineer cannot honorably accept compensation, financial or otherwise, from more than one interested party, without the consent of all parties. The engineer, whether consulting, designing, installing or operating, must not accept commissions, directly or indirectly, from parties dealing with his client or employer.

5. An engineer called upon to decide on the use of inventions, apparatus, or anything in which he has a financial interest, should make his status in the matter clearly understood before engagement.

6. An engineer in independent practice may be employed by more than one party, when the interests of the several parties do not conflict; and it should be understood that he is not expected to devote his entire time to the work of one, but is free to carry out other engagements. A consulting engineer permanently retained by a party, should notify others of this affiliation before entering into relations with them, if, in his opinion, the interests might conflict.

7. An engineer should consider it his duty

The personnel of this committee, as reappointed by President Dunn in August, 1911, is as follows:

GEORGE F. SEVER, *Chairman*

H. W. BUCK CHARLES P. STEINMETZ

SAMUEL REBER HENRY G. STOTT

SCHUYLER SKAATS WHEELER

This committee's work was presented in a report to the Board of Directors on February 9, 1912, when the code was tentatively adopted. After a month's careful analysis and consideration of numerous suggestions from the advisory members of the committee and others, the completed code was adopted at the meeting of the Board of Directors on March 8, 1912.

At the meeting of February 9, the title of the committee and of the code was changed from that of Code of Ethics to Code of Principles of Professional Conduct.

The committee was assisted by eighteen advisory members appointed by the President. Their names are appended.

WILLIAM S. BARSTOW	HENRY H. NORRIS
LOUIS BELL	RALPH W. POPE
JOHN J. CARTY	HARRIS J. RYAN
FRANCIS B. CROCKER	CHARLES F. SCOTT
DUGALD C. JACKSON	SAMUEL SHELDON
A. E. KENNELLY	WILLIAM STANLEY
JOHN W. LIEB, JR.	LEWIS B. STILLWELL
C. O. MAILLOUX	ELIHU THOMSON
RALPH D. MERSHON	W. D. WEAVER

to make every effort to remedy dangerous defects in apparatus or structures or dangerous conditions of operation, and should bring these to the attention of his client or employer.

C. OWNERSHIP OF ENGINEERING RECORDS AND DATA

8. It is desirable that an engineer undertaking for others work in connection with which he may make improvements, inventions, plans, designs, or other records, should enter into an agreement regarding their ownership.

9. If an engineer uses information which is not common knowledge or public property, but which he obtains from a client or employer; the results in the form of plans, designs, or other records, should not be regarded as his property, but the property of his client or employer.

10. If an engineer uses only his own knowledge, or information which by prior publication, or otherwise, is public property and obtains no engineering data from a client or employer, except performance specifications or routine information; then in the absence of an agreement to the contrary the results in the form of inventions, plans, designs, or other records, should be regarded as the property of the engineer, and the client or employer should be entitled to their use only in the case for which the engineer was retained.

11. All work and results accomplished by the engineer in the form of inventions, plans, designs, or other records, that are outside of the field of engineering for which a client or employer has retained him, should be regarded as the engineer's property unless there is an agreement to the contrary.

12. When an engineer or manufacturer builds apparatus from designs supplied to him by a customer, the designs remain the property of the customer and should not be duplicated by the engineer or manufacturer for others without express permission. When the engineer or manufacturer and a customer jointly work out designs and plans or develop inventions, a clear understanding should be reached before the beginning of the work regarding the respective rights of ownership in any inventions, de-

signs, or matters of similar character, that may result.

13. Any engineering data or information which an engineer obtains from his client or employer, or which he creates as a result of such information, must be considered confidential by the engineer; and while he is justified in using such data or information in his own practise as forming part of his professional experience, its publication without express permission is improper.

14. Designs, data, records and notes made by an employe and referring exclusively to his employer's work, should be regarded as his employers property.

15. A customer, in buying apparatus, does not acquire any right in its design but only the use of the apparatus purchased. A client does not acquire any right to the plans made by a consulting engineer except for the specific case for which they were made.

D. THE ENGINEER'S RELATIONS TO THE PUBLIC

16. The engineer should endeavor to assist the public to a fair and correct general understanding of engineering matters, to extend the general knowledge of engineering, and to discourage the appearance of untrue, unfair or exaggerated statements on engineering subjects in the press or elsewhere, especially if these statements may lead to, or are made for the purpose of, inducing the public to participate in unworthy enterprises.

17. Technical discussions and criticisms of engineering subjects should not be conducted in the public press, but before engineering societies, or in the technical press.

18. It is desirable that first publication concerning inventions or other engineering advances should not be made through the public press, but before engineering societies or through technical publications.

19. It is unprofessional to give an opinion on a subject without being fully informed as to all the facts relating thereto and as to the purposes for which the information is asked. The opinion should contain a full statement of the conditions under which it applies.

E. THE ENGINEER'S RELATIONS TO THE ENGINEERING FRATERNITY

20. The engineer should take an interest in and assist his fellow engineers by exchange of general information and experience, by instruction and similar aid, through the engineering societies or by other means. He should endeavor to protect all reputable engineers from misrepresentation.

21. The engineer should take care that credit for engineering work is attributed to those who, so far as his knowledge of the

matter goes, are the real authors of such work.

22. An engineer in responsible charge of work should not permit non-technical persons to overrule his engineering judgments on purely engineering grounds.

F. AMENDMENTS

Additions to, or modifications in, this Code may be made by the Board of Directors under the procedure applying to a by-law.

Code of Ethics of American Association of Engineers

ANY code of ethics must be predicated upon the basic principles of truth and honesty. "Whatsoever things are true, whatsoever things are honest," are the things for which engineers must contend.

An engineer may not "go beyond and defraud his brother" by any underhanded act or method. He may not do or say anything which will injure his brother's reputation or his business for the purpose of securing his own advancement or profit. This admonition carries with it no obligation to refrain from telling known and absolute truth about an unworthy brother, as a protection to others; but the truth so told must be such as can be substantiated, and he who tells it must have the courage which will not shrink from the consequence of his telling.

The engineer owes his client allegiance demanding his most conscientious service. But conscientious service to the client must never entail a surrender of personal convictions of truth and right.

An engineer who receives compensation from an employer may not receive gift, commission or remuneration of any kind

from a third party with whom he does business for that employer.

An engineer seeking to build up his business may not resort to self-laudation in advertising. He may state briefly the lines of work in which he has had experience, and enumerate responsible positions which he has held and give his references.

An engineer who employs others either in his own service or in that of the client who employs him, should recognize in his relationship to them an obligation of exemplary conduct, of helpfulness and personal interest in those with whom he is thus brought in contact, and he should discharge such obligation tactfully and kindly.

The honor of the profession should be dear to every engineer, and he should remember that his own character and conduct reflect honor, or the reverse upon the profession.

If, then, he so lives that his own honor shall never be smirched by his own act or omission, he will thus maintain the honor of the organization to which he belongs.

A Circular of Advice

Relative to Principles of Professional Practice and The Canons of Ethics¹

THE AMERICAN INSTITUTE OF ARCHITECTS, seeking to maintain a high standard of practice and conduct on the part of its members as a safeguard of the important

financial, technical and esthetic interests entrusted to them, offers the following advice relative to professional practice:

The profession of architecture calls for men of the highest integrity, business

¹ AIA. Document No. 163.

capacity and artistic ability. The architect is entrusted with financial undertakings in which his honesty of purpose must be above suspicion; he acts as professional adviser to his client and his advice must be absolutely disinterested; he is charged with the exercise of judicial functions as between client and contractors and must act with entire impartiality; he has moral responsibilities to his professional associates and subordinates; finally, he is engaged in a profession which carries with it grave responsibility to the public. These duties and responsibilities cannot be properly discharged unless his motives, conduct, and ability are such as to command respect and confidence.

No set of rules can be framed which will particularize all the duties of the architect in his various relations to his clients, to contractors, to his professional brethren, and to the public. The following principles should, however, govern the conduct of members of the profession and should serve as a guide in circumstances other than those enumerated.

1. ON THE ARCHITECT'S STATUS

The architect's relation to his client is primarily that of professional adviser; this relation continues throughout the entire course of his service. When, however, a contract has been executed between his client and a contractor by the terms of which the architect becomes the official interpreter of its conditions and the judge of its performance, an additional relation is created under which it is incumbent upon the architect to side neither with client nor contractor, but to use his powers under the contract to enforce its faithful performance by both parties. The fact that the architect's payment comes from the client does not invalidate his obligation to act with impartiality to both parties.

2. ON PRELIMINARY DRAWINGS AND ESTIMATES

The architect at the outset should impress upon the client the importance of sufficient time for the preparation of drawings and specifications. It is the duty of the architect to make or secure

preliminary estimates when requested, but he should acquaint the client with their conditional character and inform him that complete and final figures can be had only from complete and final drawings and specifications. If an unconditional limit of cost be imposed before such drawings are made and estimated, the architect must be free to make such adjustments as seem to him necessary. Since the architect should assume no responsibility that may prevent him from giving his client disinterested advice, he should not, by bond or otherwise, guarantee any estimate or contract.

3. ON SUPERINTENDENCE AND EXPERT SERVICES

On all work except the simplest, it is to the interest of the owner to employ a superintendent or clerk of the works. In many engineering problems and in certain specialized esthetic problems, it is to his interest to have the services of special experts and the architect should so inform him. The experience and special knowledge of the architect make it to the advantage of the owner that these persons, although paid by the owner, should be selected by the architect under whose direction they are to work.

4. ON THE ARCHITECT'S CHARGES

The Schedule of Charges of the American Institute of Architects is recognized as a proper minimum of payment. The locality or the nature of the work, the quality of services to be rendered, the skill of the practitioner or other circumstances frequently justify a higher charge than that indicated by the Schedule.

5. ON PAYMENT FOR EXPERT SERVICE

The architect, when retained as an expert, whether in connection with competitions or otherwise, should receive a compensation proportionate to the responsibility and difficulty of the service. No duty of the architect is more exacting than such service, and the honor of the profession is involved in it. Under no circumstances should experts knowingly name prices in competition with each other.

6. ON SELECTION OF BIDDERS OR CONTRACTORS

The architect should advise the client in the selection of bidders and in the award of the contract. In advising that none but trustworthy bidders be invited and that the award be made only to contractors who are reliable and competent, the architect protects the interests of his client.

7. ON DUTIES TO THE CONTRACTOR

As the architect decides whether or not the intent of his plans and specifications is properly carried out, he should take special care to see that these drawings and specifications are complete and accurate, and he should never call upon the contractor to make good oversights or errors in them nor attempt to shirk responsibility by indefinite clauses in the contract or specifications.

8. ON ENGAGING IN THE BUILDING TRADES

The architect should not directly or indirectly engage in any of the building trades. If he has any financial interest in any building material or device, he should not specify or use it without the knowledge and approval of his client.

9. ON ACCEPTING COMMISSIONS OR FAVORS

The architect should not receive any commission or any substantial service from a contractor or from any interested person other than his client.

10. ON ENCOURAGING GOOD WORKMANSHIP

The large powers with which the architect is invested should be used with judgment. While he must condemn bad work, he should commend good work. Intelligent initiative on the part of craftsmen and workmen should be recognized and encouraged and the architect should make evident his appreciation of the dignity of the artisan's function.

11. ON OFFERING SERVICES GRATUITOUSLY

The seeking out of a possible client and the offering to him of professional services on approval and without compensation,

unless warranted by personal or previous business relations, tends to lower the dignity and standing of the profession, and is to be condemned.

12. ON ADVERTISING

Publicity of the standards, aims and progress of the profession, both in general and as exemplified by individual achievement, is essential. Advertising of the individual, meaning self-laudatory publicity procured by the person advertised or with his consent, tends to defeat its own ends as to the individual as well as to lower the dignity of the profession, and is to be deplored.

13. ON SIGNING BUILDINGS AND USE OF TITLES

The unobtrusive signature of buildings after completion is desirable.

The placing of the architect's name on a building during construction serves a legitimate purpose for public information, but is to be deplored if done obtrusively for individual publicity.

The use of initials designating membership in the Institute is desirable in all professional relationships, in order to promote a general understanding of the Institute and its standards through a knowledge of its members and their professional activities.

Upon the members devolves the responsibility to associate the symbols of the Institute with acts representative of the highest standards of professional practice.

14. ON COMPETITIONS

An architect should not take part in a competition as a competitor or juror unless the competition is to be conducted according to the best practice and usage of the profession, as evidenced by its having received the approval of the Institute, nor should he continue to act as professional adviser after it has been determined that the program cannot be so drawn as to receive such approval. When an architect has been authorized to submit sketches for a given project, no other architect should submit sketches for it until the owner has taken definite action on the first sketches, since, as far as the second architect

is concerned, a competition is thus established. Except as an authorized competitor, an architect may not attempt to secure work for which a competition has been instituted. He may not attempt to influence the award in a competition in which he has submitted drawings. He may not accept the commission to do the work for which a competition has been instituted if he has acted in an advisory capacity either in drawing the program or in making the award.

15. ON INJURING OTHERS

An architect should not falsely or maliciously injure, directly or indirectly, the professional reputation, prospects or business of a fellow architect.

16. ON UNDERTAKING THE WORK OF OTHERS

An architect should not undertake a commission while the claim for compensation or damages or both, of an architect previously employed and whose employment has been terminated remains unsatisfied, unless such claim has been referred to arbitration or issue has been joined at law; or unless the architect previously employed neglects to press his claim; nor should he attempt to supplant a fellow architect after definite steps have been taken toward his employment.

When an architect is asked to make alterations of, or additions to a building designed by another, he should bear in mind the artistic rights of the author. When practicable the new design should be submitted to the original designer as a professional courtesy, which will at least invite an opinion upon the proposed changes.

17. ON DUTIES TO STUDENTS AND DRAUGHTSMEN

The architect should advise and assist those who intend making architecture

their career. If the beginner must get his training solely in the office of an architect, the latter should assist him to the best of his ability by instruction and advice. An architect should urge his draughtsmen to avail themselves of educational opportunities. He should, as far as practicable, give encouragement to all worthy agencies and institutions for architectural education. While a thorough technical preparation is essential for the practice of architecture, architects cannot too strongly insist that it should rest upon a broad foundation of general culture.

18. ON DUTIES TO THE PUBLIC AND TO BUILDING AUTHORITIES

An architect should be mindful of the public welfare and should participate in those movements for public betterment in which his special training and experience qualify him to act. He should not, even under his client's instructions, engage in or encourage any practices contrary to law or hostile to the public interest; for, as he is not obliged to accept a given piece of work, he cannot, by urging that he has but followed his client's instructions, escape the condemnation attaching to his acts. An architect should support all public officials who have charge of building in the rightful performance of their legal duties. He should carefully comply with all building laws and regulations, and if any such appear to him unwise or unfair, he should endeavor to have them altered.

19. ON PROFESSIONAL QUALIFICATIONS

The public has the right to expect that he who bears the title of architect has the knowledge and ability needed for the proper invention, illustration, and supervision of all building operations which he may undertake. Such qualifications alone justify the assumption of the title of architect.

The Canons of Ethics

THE following Canons are adopted by the American Institute of Architects as a general guide, yet the enumeration of particular duties should not be construed as a denial of the existence of others equally im-

portant although not specially mentioned. It should also be noted that the several sections indicate offences of greatly varying degrees of gravity.

It is unprofessional for an architect—

1. To engage directly or indirectly in any of the building or decorative trades.

2. To guarantee an estimate or contract by bond or otherwise.

3. To accept any commission or substantial service from a contractor or from any interested party other than the owner.

4. To take part in any competition which has not received the approval of the Institute or to continue to act as professional adviser after it has been determined that the program cannot be so drawn as to receive such approval.

5. To attempt in any way, except as a duly authorized competitor, to secure work for which a competition is in progress.

6. To attempt to influence, either directly or indirectly, the award of a competition in which he is a competitor.

7. To accept the commission to do the work for which a competition has been instituted if he has acted in an advisory capacity, either in drawing

the program or in making the award.

8. To injure falsely or maliciously, directly or indirectly, the professional reputation, prospects or business of a fellow architect.

9. To undertake a commission while the claim for compensation, or damages, or both, of an architect previously employed and whose employment has been terminated remains unsatisfied, until such claim has been referred to arbitration or issue has been joined at law, or unless the architect previously employed neglects to press his claim.

10. To attempt to supplant a fellow architect after definite steps have been taken toward his employment, *e. g.*, by submitting sketches for a project for which another architect has been authorized to submit sketches.

11. To compete knowingly with a fellow architect for employment on the basis of professional charges.

A Code of Ethics for the Teaching Profession

Adopted by the Pennsylvania State Education Association, December 1920

THIS code is an application of the general principles of ethics to the special obligations, rights, and privileges of the teaching profession.

I. PROFESSIONAL ATTITUDE

The highest obligation of every member of the teaching profession is due to those who are under his professional care.

II. COMPENSATION

The teaching profession should demand, for each of its members, that compensation which will enable him to render the most efficient service. To attain maximum efficiency the compensation must be sufficient to enable him to live upon a scale befitting his place in society, to permit the necessary expenditures for professional improvement, and to make proper provision for those dependent upon him, and for himself in his old age.

III. OPEN-MINDED STUDY OF EDUCATION

Every member of the profession should be a progressive student of education. To this end he should be a thoughtful reader of educational literature, should attend and participate in educational meetings, should engage in such experimentation and collection of data as will test the value of educational theories and aid in the establishment of a scientific basis for educational practice, and should be willing to give to his fellow members the benefits of his professional knowledge and experience.

IV. CRITICISMS OF ASSOCIATES

(a) The motives for all criticisms should be helpfulness and improvement. Adverse criticisms, known or heard, should not be made or repeated except to the one criticized, or to his superior with the full

expectation that opportunity for explanation will be afforded. On the other hand, when corrupt and dishonorable practices are known to exist they should be fearlessly reported to the proper authorities.

(b) Adverse comments and insinuations in regard to the work of a predecessor or of the teacher of a previous grade are to be condemned.

V. APPOINTMENTS AND PROMOTIONS

(a) All appointments, promotions or advancements in salary should be obtained exclusively on merit. To this end, it is proper for the candidate to make his qualifications known to the proper school authorities, either directly or through a teachers' agency.

(b) A teacher should take no steps towards obtaining a specific position until he knows the position is vacant or about to become vacant.

(c) No teacher should secure an offer elsewhere for the sole purpose of using it as a means to obtain an increase of salary on his present position.

(d) Upon accepting appointment in a given district a teacher should notify all other districts to which letters of application have been sent.

(e) Whenever a superintendent is seeking a teacher in another district he should inform the superintendent or the proper officials of the district, but a superintendent's reluctance to part with a teacher should not deprive the teacher of an opportunity for deserved advancement.

VI. CONTRACT OBLIGATIONS

A teacher should never violate a contract. Unless the consent of the employing body is obtained releasing the obligation, the contract should be fulfilled. On the other hand, when a teacher is offered a better position elsewhere it is against the best interests of the schools to stand in the way of the teacher's advancement by arbitrary insistence upon the terms of a needlessly rigid contract, when the place can be satisfactorily filled.

VII. DEMOCRACY IN THE DEVELOPMENT OF SCHOOL PLANS

The superintendent should be recognized as the professional leader of the

school system. Each member of the system should be given opportunity to collaborate in the solution of professional problems; but when a policy is finally determined, it should be loyally supported by all.

VIII. RELATIONS BETWEEN SUPERVISORY OFFICERS AND TEACHERS

(a) Coöperation, loyalty, and sincerity should characterize all relations between supervisory officers and teachers.

(b) Each teacher is entitled from time to time to statements of his professional record, whether favorable or unfavorable, and may properly make requests for such statements. Moreover, every teacher whose reemployment is not intended should be given timely notice.

(c) A supervisor of class room work should observe the following ethical principles in relation to the teachers whose work he observes professionally.

1. He should express an opinion upon the work observed following each professional visit.

2. He should recommend ways to remove every fault pointed out, and allow reasonable opportunity for improvement.

3. He should not criticize a teacher before other teachers or before pupils.

4. He should just as certainly and just as unfailingly point out the excellences as the faults of the work observed.

5. He should give ample opportunity for conference previous to observation of the teacher's work.

(d) A superintendent or other supervisory officer should be ready and willing at any time to answer official inquiries from prospective employers concerning the qualifications of any teacher under him, and should be willing to write to any interested party, at the request of a teacher, giving a statement of the teacher's professional record under him; but evasive or equivocal letters of recommendation should not be given.

IX. RELATIONS TO PARENTS

(a) Teachers should maintain coöperative relations with parents, and should meet criticism with open mindedness and courtesy.

(b) Teachers should not discuss the

physical, mental, moral or financial limitations of their pupils in such a way as to embarrass the pupils or parents unnecessarily. Nevertheless they should exercise the utmost candor, as well as tact, in their communications with parents on matters of real importance. Information concerning the home conditions of the pupils should be held in confidence by the teachers.

X. RELATIONS TO PUBLISHERS AND SUPPLY HOUSES

No member of the profession should act as an agent, or receive a commission, or royalty, or anything else of value, for any books or supplies in the selection of which he exercises official decision.

XI. TEACHERS' AGENCIES

The profession should unhesitatingly condemn teachers' agencies that encourage teachers to break their contracts, that work for the appointment or promotion of unqualified teachers, or that make recommendations for positions not known positively to be vacant. Any member of the profession who has knowledge of such action, should report it to the Commission on Professional Ethics.

XII. LOYALTY TO SCHOOL BOARDS

(a) It is the duty of every member of the profession in a school system to recognize the legal authority of the board of directors, and to be loyal to its policies established in accordance therewith.

(b) If, however, the attitude of a school board should clearly and persistently be such as to prevent the members of the profession employed by it from serving the best interests of the pupils, and if repeated efforts to remedy the situation have been

without avail, then an appeal should be made to the Commission on Professional Ethics.

XIII. COMMISSION ON PROFESSIONAL ETHICS

(a) There should be a Commission on Professional Ethics operating under the Pennsylvania State Educational Association. This Commission shall consist of the President of the Association, *ex officio*, and four members of the profession, appointed by the President, with terms of four years each, one term expiring on July first each year.

(b) It shall be the duty of this Commission to study the various problems of professional ethics arising from time to time, to give the inquiring members of the profession its interpretation of the meaning of various principles in this code, to arrange for investigations rendered advisable in connection with this code, to take such action in regard to their findings as may be deemed wise, to make recommendations to the State Association as to amendments or additions to the code, and in general to have oversight of all questions arising in connection with the ethics of the teaching profession within the state.

The Personnel of the Commission for the year ending July 1, 1922:

George Gailey Chambers, *Chairman*, University of Pennsylvania, Phila., Pa.

Charles A. Wagner, *City Superintendent*, Chester, Pa.

Eli M. Rapp, *Superintendent*, Berks County, Reading, Pa.

George Wheeler, *Associate Superintendent*, Philadelphia, Pa.

H. W. Dodd, *ex-officio*, President of the Penna. State Educational Association, Allentown, Pa.

The Oregon Code of Ethics for Journalism

Adopted at the Oregon Newspaper Conference, 1922

"Not only all arts and sciences but all actions directed by choice aim at some good."

Aristotle, Nicomachean Ethics, I. 1.

PREAMBLE

WE believe in the teaching of the great ethicists that a general state of happiness and well-being is attainable

throughout the world; and that this state is the chief end-in-view of society.

We recognize an instinct in every good man that his utterances and his deeds

should make a reasonable and continuous contribution toward this ultimate state, in the possibility of which we reiterate our belief, however remote it may now seem.

We believe that men collectively should also follow the principles of practice that guide the ethical individual. For whatever purpose men are associated, we believe they should endeavor to make the reasonable and continuous contribution that distinguishes the ethical man. And all the agencies and instrumentalities employed by men, singly or collectively, should be based upon the best ethical practice of the time, so that the end-in-view of society may thereby be hastened.

Of all these agencies the printed word is most widely diffused and most powerful. The printed word is the single instrument of the profession we represent, and the extent to which it is shaping the thoughts and the conduct of peoples is measureless. We therefore pronounce the ethical responsibility of journalism the greatest of the professional responsibilities, and we desire to accept our responsibility, now and hereafter, to the utmost extent that is right and reasonable in our respective circumstances.

Accordingly we adopt for our guidance the following code, which shall be known as the Oregon Code of Ethics for Journalism.

I. SINCERITY; TRUTH

The foundation of ethical journalism is sincerity. The sincere journalist will be honest alike in his purposes and in his writings. To the best of his capacity to ascertain truth, he will always be truthful. It is his attitude toward truth that distinguishes the ethical from the unethical writer. It is naturally not possible that all writing can be without error; but it can always be without deliberate error. There is no place in journalism for the dissembler; the distorter; the prevaricator; the suppressor; or the dishonest thinker.

The first section of this code therefore provides that we shall be continuously sincere in professional practice; and sincerity as journalists means, for example, that:

1. We will put accuracy above all other con-

siderations in the written word, whether editorial, advertisement, article, or news story.

2. We will interpret accuracy not merely as the absence of actual misstatement, but as the presence of whatever is necessary to prevent the reader from making a false deduction.

3. In an ethical attitude toward truth, we will be open at all times to conviction, for the sincere journalist, while fearless and firm, will never be stubborn; therefore we will never decline to hear and consider new evidence.

4. If new evidence forces a change of opinion, we will be as free in the acknowledgment of the new opinion as in the utterance of the old.

5. We will promote a similar attitude in others toward truth, not asking or permitting employes to write things which as sincere journalists we would not ourselves write.

II. CARE; COMPETENCY; THOROUGHNESS

Inaccuracy in journalism is commonly due more to lack of mental equipment than to wilfulness of attitude. The ill-equipped man cannot be more competent as a journalist than he can as a doctor or engineer. Given an ethical attitude, the contribution that each journalist makes to his community and to society is nearly in ratio to his competency. We regard journalism as a precise and a learned profession, and it is therefore the second part of this code that:

6. By study and inquiry and observation, we will constantly aim to improve ourselves, so that our writings may be more authentic, and of greater perspective, and more conducive to the social good.

7. We will consider it an essential in those we employ that they not merely be of ethical attitude, but reasonably equipped to carry out their ideals.

8. We will make care our devotion in the preparation of statements of fact and in the utterance of opinion.

9. We will advocate in our respective communities the same thoroughness, sound preparation, and pride of craft, that we desire in ourselves, our employes, and our associates.

10. We are accordingly the active enemies of superficiality and pretense.

III. JUSTICE; MERCY; KINDLINESS

Liberty of the press is, by constitution, statute, and custom, greater in the United States than anywhere else in the world. This liberty exists for our press so that the liberty of the whole people may thereby be

guarded. It so happens that at times the liberty of the press is exercised as license to infringe upon the rights of groups and of individuals; because custom and law have brought about certain immunities, it happens that in haste or zeal or malice or indifference, persons are unjustly dealt by. Yet the freedom of the press should at all times be exercised as the makers of the constitution; and the people themselves through their tolerance, have intended it. The reputations of men and women are sacred in nature and not to be torn down lightly. We therefore pronounce it appropriate to include in this code that:

11. We will not make "privileged utterance" a cloak for unjust attack, or spiteful venting, or carelessness in investigation, in the cases of parties or persons.

12. We will aim to protect, within reason, the rights of individuals mentioned in public documents, regardless of the effect on "good stories" or upon editorial policy.

13. We will deal by all persons alike so far as is humanly possible, not varying from the procedure of any part of this code because of the wealth, influence, or personal situation of the persons concerned, except as hereinafter provided.

14. It shall be one of our canons that mercy and kindness are legitimate considerations in any phase of journalism; and that if the public or social interest seems to be best conserved by suppression, we may suppress; but the motive in such instances must always be the public or social interest, and not the personal or commercial interest.

15. We will try so to conduct our publication, or to direct our writing, that justice, kindness, and mercy will characterize our work.

IV. MODERATION; CONSERVATISM; PROPORTION

Since the public takes from the journalist so great a proportion of the evidence upon which it forms its opinions, obviously that evidence should be of high type. The writer who makes his appeal to the passions rather than to the intellect is too often invalid as a purveyor of evidence because his facts are out of perspective. By improper emphasis, by skilful arrangement, or by devices of typography or rhetoric, he causes the formation in the reader's mind of unsound opinion. This practice is quite as improper as and frequently is more harmful than actual prevarication. Through

this code we desire to take a position against so-called sensational practice by acceptance of the following canons:

16. We will endeavor to avoid the injustice that springs from hasty conclusion in editorial or reportorial or interpretative practice.

17. We will not overplay news or editorial for the sake of effect when such procedure may lead to false deductions in readers' minds.

18. We will regard accuracy and completeness as more vital than our being the first to print.

19. We will try to observe due proportion in the display of news to the end that inconsequential matter may not seem to take precedence in social importance over news of public significance.

20. We will in all respects in our writing and publishing endeavor to observe moderation and steadiness.

21. Recognizing that the kaleidoscopic changes in news tend to keep the public processes of mind at a superficial level, we will try to maintain a news and an editorial policy that will be less ephemeral in its influence upon social thought.

V. PARTISANSHIP; PROPAGANDA

We believe that the public has confidence in the printed word of journalism in proportion as it is able to believe in the competency of journalists and have trust in their motives. Lack of trust in our motives may arise from the suspicion that we shape our writings to suit non-social interests, or that we open our columns to propaganda, or both. Accordingly we adopt the following professional canons:

22. We will resist outside control in every phase of our practice, believing that the best interests of society require intellectual freedom in journalism.

23. We will rise above party and other partisanship in writing and publishing, supporting parties and issues only so far as we sincerely believe them to be in the public interest.

24. We will not permit, unless in exceptional cases, the publishing of news and editorial matter not prepared by ourselves or our staffs, believing that original matter is the best answer to the peril of propaganda.

VI. PUBLIC SERVICE AND SOCIAL POLICY

We dispute the maxim sometimes heard that a newspaper should follow its constituency in public morals and policy rather than try to lead it. We do not expect to

be so far ahead of our time that our policies will be impractical; but we do desire to be abreast of the best thought of the time, and if possible to be its guide. It is not true that a newspaper should be only as advanced in its ethical atmosphere as it conceives the average of its readers to be. No man who is not in ethical advance of the average of his community should be in the profession of journalism. We declare therefore as follows:

25. We will keep our writings and our publications free from unrefinement, except so far as we may sincerely believe publication of sordid details to be for the social good.

26. We will consider all that we write or publish for public consumption in the light of its effect upon social policy, refraining from writing or from publishing if we believe our material to be socially detrimental.

27. We will regard our privilege of writing for publication or publishing for public consumption as an enterprise that is social as well as commercial in character, and therefore will at all times have an eye against doing anything counter to social interest.

28. We believe it an essential part of this policy that we shall not be respecters of persons.

VII. ADVERTISING AND CIRCULATION

We repudiate the principle of "letting the buyer beware." We cannot agree to guarantee advertising, but we assume a definite attitude toward the advertising

that we write, solicit, or print. We believe that the same canons of truth and justice should apply in advertising and circulation as we are adopting for news and editorial matter. We therefore agree to the following business principles:

29. We will coöperate with those social interests whose business it is to raise the ethical standard of advertising.

30. We will discourage and bar from our columns advertising which in our belief is intended to deceive the reader in his estimate of what is advertised. (This clause is intended to cover the many phases of fraud, and unfair competition, and the advertising of articles that seem likely to be harmful to the purchaser's morals or health.)

31. We will not advertise our own newspaper or its circulation boastfully, or otherwise, in terms not in harmony with the clauses of this code of ethics. (This is intended to cover misleading statements to the public or to advertisers as to the whole number of copies printed, number of paid-up subscribers, number of street sales, and percentage of local circulation.)

32. We will not make our printing facilities available for the production of advertising which we believe to be socially harmful or fraudulent in its intent.

To the foregoing code we subscribe heartily as a part of our duty to society and of our belief that the salvation of the world can come only through the acceptance and practice by the people of the world of a sound and practical ethical philosophy.

Code of Ethics for Newspapers

Proposed by W. E. Miller of the *St. Mary's Star*
and

Adopted by the Kansas State Editorial Association at the State Convention
of the Kansas Editorial Association, March 8, 1910

FOR THE PUBLISHER *In Advertising*

Definition.—Advertising is news, or views, of a business or professional enterprise which leads directly to its profits or increased business.

News of the industrial or commercial development of an institution which in no way has a specific bearing upon the merits of its products is not advertising.

Besides news which leads to a profit advertising also includes communications and reports, cards of thanks, etc., over the space of which the Editor has no control. Charges for the latter become more in the nature of a penalty to restrict their publication.

Responsibility.—The authorship of an advertisement should be so plainly stated in the context or at the end that it could not

avoid catching the attention of the reader before he has left the matter.

Unsigned advertisements in the news columns should either be preceded or followed by the word "advertisement" or its abbreviation.

We hold that the publisher should in no degree be held responsible for the statement of fact or opinion found in an advertisement.¹

Freedom of Space.—We hold the right of the publisher to become a broker in land, loan, rental and mercantile transactions through his want and advertising columns and condemn any movement of those following such lines to restrict this right of the publisher to the free sale of his space for the purpose of bringing buyer and seller together.

This shall not be construed to warrant the publisher as such in handling the details, terms, etc., of the trade, but merely in safeguarding his freedom in selling his space to bring the buyer and seller together, leaving the bargaining to the principals.

Our advertising is to bring together the buyer and the seller, and we are not concerned whether it is paid for and ordered by the producer, the consumer or a middleman.

According to any other desires on the part of traders is knocking the foundations out from under the advertising business—the freedom of space. We hold that the freedom of space (where the payment is not a question) should only be restricted

¹ *Argument.*—I have no objection to practically any method being used by the advertiser to induce the reader to read his advertisement, providing the reader learns before he is through that it is an advertisement. Such methods include using the same type for headings and body as is used in the regular news stories, even wording the beginning of the advertisement around a topic upon which the mind of the public is riveted. But because these have not been marked as advertisements the public has often been made to believe that the expression of some fake in his advertisement was the expression of the editor and they have blindly bitten because of this trust. I have a number of such exhibits here; anyone interested may examine. To use an advertising cross rule is not sufficiently plain to the public; to use different kinds of type for the heading or body butchers the color

by the moral decency of the advertising matter.²

We hold that the freedom of space denies us the right to sign any contract with a firm which contains any restrictions against the wording of the copy which we may receive from any other firm, even to the mentioning of the goods of the first firm by name.

Compensation.—We condemn the signing of contracts carrying with them the publication of any amount of free reading matter.

We condemn the acceptance of any exchange articles, trade checks, or courtesies in payment for advertising, holding that all advertising should be paid for in cash.

harmony of the paper. If we would refuse to print an indecent advertisement to protect the morals of the reader, we should, in order to protect the confiding trust of the reader, refuse to print as our own (that is, without an advertisement mark) that a man was great, notable, expert, competent, when we would not say this over our personal signature. The near news nature of an advertisement makes its offense in this matter more serious. Politicians recognize our weakness in this respect and will pay hundreds of dollars to have stories printed provided we make sure that they appear as news stories. Neither they nor the editor would personally sign these, yet the public holds the editor responsible.

The only method which preserves the artistic form and color of the paper, and gives the reader a certain idea of the authority of that which he reads is to mark it with the word: advertisement. The city of San Francisco has so far recognized the political necessity for such a course that they have incorporated it into law, making it a felony to sell the columns of a newspaper unless they are plainly marked as columns sold. *The "Argument" in the footnotes is that presented by Mr. Miller when placing this code before the Kansas State Editorial Association.—The Editor.*

² *Argument:* In the case of many questionable speculative propositions there may be objection to this interpretation of the freedom of space. Upon these I hold that the freedom of space demands that we take the money, print the advertisement, but see that the copy is so worded that the responsibility rests entirely with the promoter. We do not run speculative assurance associations to protect people from their misjudgments.

We condemn the giving of secret rebates upon the established advertising rate as published.

Rates.—All advertising rates should be on a unit per thousand basis and all advertisers are entitled to a full knowledge of the circulation, not only of the quantity but also of the distribution. Statements of circulation should show the number of bona fide subscribers, the number of exchanges, the number of complimentaries, and the number sold to newsdealers, and if possible the locality of distribution, in a general way.

Position.—Position contracts should be charged a fixed percentage above the established rate of the paper, and no contracts should be signed wherein a failure to give the position required results in a greater reduction from the established rate than the position premium is greater than the established rate.

Comparisons.—We consider it beneath the dignity of a publisher to place in his columns statements which make invidious comparisons between the amount of advertising carried or the circulation of his paper and that of his competitor.

Press Agents and Unpaid Advertising.—The specific trade name of an article of commerce, or the name of a merchant, manufacturer or professional man WITH REFERENCE to his wares, products, or labors should not be mentioned in a pure news story.³

We condemn as against moral decency

³ *Argument.*—Because of our failure to have and maintain a rule of this kind we have fallen a prey to the enterprising press agents, doctors, lawyers, merchants, and manufacturers all over the country. The land, mining, railroad, industrial, exploitation companies through their high salaried press agents work us for columns of matter every year under the guise of news reports. The enterprising doctor and lawyer in your city through courtesies bestowed upon your reporters, make you the instruments for building them up a phenomenal practice and great wealth, leaving you their honied words and social courtesies with which to blot out the red in your bank book. The doctor, aside from the innumerable notices in connection with his cases, especially if they be of the sensational sort, secures a world of advertising through your society columns by his social eminence in the use of his title of distinction.

the publication of any advertisement which will OBVIOUSLY lead to any form of retrogression, such as private medical personals, indecent massage parlor advertisements, private matrimonial advertisements, physician's or hospital's advertisement for the care of private diseases, which carry in them any descriptive or suggestive matter, of the same.

In Circulation

Definition.—Circulation is the entire list of first hand readers of a publication and comprises the paid readers, complimentary readers, exchange readers, and advertising readers.

Compensation.—Subscriptions should be solicited and received only on a basis of cash consideration, the paper and its payment being the only elements to the transaction.

Newsdealers.—The purchase of a quantity of papers should be made outright, allowing for no return of unsold copies.

Gambling.—We condemn the practice of securing subscriptions through the sale or gift of chances.

Complimentaries.—Complimentary copies should not be sent to doctors, lawyers, ministers, postal clerks, police or court officials for news or mailing privileges.

In Estimating

Definition.—Estimating is the science of computing costs. Its conclusion is the price.

Basis.—We do not favor the establishment of a minimum rate card for advertising which would be uniform among publishers, but we do favor a more thorough understanding of the subject of costs and commend to our members the labors of the American Printers Cost Commission of the First International Cost Congress recently held in Chicago. Let us learn our costs and then each establish a rate card based upon our investment and the cost of production, having no consideration for the comparative ability of the advertisers to pay, or the semi-news nature of the advertisement.

Quantity Discount.—We consider it unwise to allow discounts greater than 10 per cent from the rate of first insertion for succeeding insertions.

*News.*⁴

Definition.—News is the impartial report of the activities of mind, men and matter which do not offend the moral sensibilities of the more enlightened people. •

Lies.—We condemn against truth:

(1) The publication of fake illustrations of men and events of news interest, however marked their similarity, without an accompanying statement that they are not real pictures of the event or person but only suggestive imitations.

(2) The publication of fake interviews made up of the assumed views of an individual, without his consent.

(3) The publication of interviews in

⁴Argument in Defense of News Code: This news code is concerned with truth, justice, morality and decency in the presentation of news. The good in journalism so far outweighs the bad that it is a much shorter course to state the negative propositions, leaving us thereby great freedom in the things we may do. Events relating to the political, commercial, industrial and moral welfare of the general body of the people should be brought to the foreground without hard restriction, while events which relate more to individuals should receive a stricter application of the code. In the case of the latter such events as suicides, divorces, rapes should be minimized and given more obscure positions. The rabbles read that which arouses their interest more readily than they read that which concerns their welfare, but the more enlightened do not, or rather they are more interested in that which concerns their welfare, and if we would ever gain any dignity for the professional side of newspaper work, we must cater to the latter class.

We have offended by publishing all of the scandalous details of the divorces and the fall of men holding high places of trust—exploiting the criminality of criminals. The offenses of our yellow type were such during the Thaw trial that the President, for the sake of moral decency, overstepped his power and by the mere force of his personality and position denied the right of the mail to papers containing verbatim reports of that case.

During the time of the National Peace Congress in Chicago, about one of twenty dailies gave it a big head on the first page, while the others gave it brief or rear page notice, while at the same time they were forging to the first positions embezzlements, murders, social scandals, divorces and war dope on the relations between Germany and England, aiding in the

quotations unless the exact, approved language of the interviewed be used. When an interview is not an exact quotation it should be obvious in the reading that *only* the thought and impression of the interviewer is being reported.

(4) The issuance of fake news dispatches whether the same have for their purpose the influencing of stock quotations, elections, or the sale of securities or merchandise. Some of the greatest advertising in the world has been stolen through the news columns in the form of dispatches from

unconscious movement to draw these two great nations into open hostilities. Let us cease to publish in piquant detail the suicides, murders, divorces or scandalous happenings, for imitation, emulation and suggestion creep with fearful force into the emotional natures of those who delight in such reading.

Let us spend more time in searching for and exploiting the virtues of men in their relations to themselves, their fellow men and their Creator.

In the language of President Hopkins of Williams college, "The enormous gain in the ratio of crime to the population is beyond question owing largely to the increased publication of the details of beastial crimes. These realistic descriptions constitute the suggestions in the technical sense of the word which act upon the half normal, undeveloped natures of the multitudes. The theory of suggestion as an element in criminal activity has long been admitted by all students of crime and criminals."

It has been said that the publication of crimes and misdeeds of men and women has afforded the public a knowledge of the evils existing in our social system, which being revolting to their sensibilities has resulted in corrective measures. This is the first of two strong arguments against my theory which I will answer briefly. The stories of crimes and misdeeds are devoured by those anxious for maudlin sentiment with a consequent depravity in their natures, natures which in the first place need not a great deal to make them like unto their mental associates. One who has an ideal thoroughly set in his mind to investigate evils with the purpose of devising their remedy may witness them without moral injury, but the indifferent witness them with the result of arousing the latent evils in their own natures. A physician having before him the desire to correct the ills of health may view the nude human form without ill suggestion; the artist with the ideal of portraying perfection in form may see no ill in what to the unconcerned would be suggestive and productive of injury;

unscrupulous press agents. Millions have been made on the rise and fall of stock quotations caused by newspaper lies, sent out by designing reporters.

Injustice.—We condemn as against justice:

(1) The practice of reporters making detectives and spies of themselves in their endeavors to investigate the guilt or innocence of those under suspicion.

Reporters should not enter the domain of law in the apprehension of criminals. They should not become a detective or sweating agency for the purpose of furnishing excitement to the readers.

No suspect should have his hope of a just liberty foiled through the great prejudice which the public has formed against him because of the press verdict

the priest in the confessional, having before his mind the ideal of soul perfection, sees no ill in the narration of the immoral conduct of another, but with the purposeless and idealless onlooker any of these afford a most dangerous source of depraving temptation. A sufficient number of learned, honest and patriotic lawyers, jurists, doctors, and ministers and editors will know all that is necessary to know of the baser evils of the day to formulate programs for their improvement without the danger of opening this knowledge to the general public. Their conclusions and statistical summaries will be sufficient to crystallize public sentiment to the proper remedy without the publication of the details.

Again it is said that those who do not fear the Law, who do not fear God, do fear publicity, hence our obligation to publish the salacious details of the misdeeds of moral perverts—that they would fear the public shame. One word will settle this. That individual who is so devoid of any enlightened conscience as to respect neither religious sentiment nor the hand of the law, most certainly does not care a rap for the opinion of the general public, and as for uncovering any mask under which he has been living, any man who is very heavily steeped in vice is known as such to his own acquaintances.

The police of this city of Wichita recently stopped the Emmett Dalton moving picture show from reproducing the Dalton raid at Coffeyville, and they based their action on the ground that the pictures are of a kind to impair the morals of susceptible youths. Their action was commended by our press, while our news columns were picturing with equal piquancy the details of the crimes and misdeeds of the day.

slyly couched in the news report, even before his arrest.

We should not even by insinuation interpret of facts our conclusions, unless by signature we become personally responsible for them. Exposition, explanation, and interpretation should be left to the field of the expert or specialist with a full consciousness of his personal responsibility.

(2) The publication of the rumors and common gossips or the assumptions of a reporter relative to a suspect pending his arrest or the final culmination of his trial. A staff of reporters is not a detective agency, and the right of a suspect to a fair

Frederick Peterson in *Colliers* for September 1906 says, "Investigation seems to show that the circulation of the newspaper increases the lower it descends in the scale of immorality. These newspapers represent in the domain of culture and enlightenment the mob spirit, a vast impersonal, delirious, anarchic, degenerating force. And it is this force which, acting upon the minds of the masses, sways them irresistibly in its own direction, making chaos where there should be order, familiarizing them with crime, presenting the worst features of human life for their emulation, and imitation, and working insidiously by suggestion to induce in them noxious thoughts which often lead to harmful deeds."

In the language of Wm. Smithers, of the American Academy of Political and Social Science: "We are all criminals; we must say none of us are perfect. There is a world of savagery in us all, underneath the veneer of civilization; that is why we should abstain from saying vengeful things about other criminals. It calls up the savagery within us and incites it in others. That is why it is an evil thing for newspapers to publish the details of crime: it ought to be prohibited as the details of executions are prohibited in certain states."

The elements of sympathy, indignation, terror and awe in human nature are played upon by the publishers with a craze for circulation. As morbid reading makes circulation and circulation makes advertising, the life blood of today's newspaper comes in a great measure from morbidity. Divided, we are compelled to do it, or our competitor will reap the harvest. United upon a common ideal of newspaper ethics, the public can discriminate, and they will enable us to thrive, and honor us for our ideals, whilst otherwise ere long the hand of the law will crush our abuses and with the crushing take many of our essential liberties.

and impartial trial is often confounded by a reporter's practice of printing every ill-founded rumor of which he gets wind.

Indecencies.—Classification: for the sake of clearness and order crimes with which we will be concerned may be divided into those which offend against the PUBLIC TRUST (such as bribery, defalcation or embezzlement by a public official); those which offend against PRIVATE INSTITUTIONS or EMPLOYERS (which are also often defalcations and betrayals of confidence); and crimes which offend against PRIVATE MORALITY most often centering around the family relation.

(1) In dealing with the suspicions against PUBLIC OFFICIALS or trustees we urge that ONLY FACTS put in their TRUE RELATION and records be used in the news reports.

No presumption or conclusion of the reporter should be allowed to enter, even though it has all the elements of a correct conclusion.

Conclusions and presumptions should be placed in interviews with the identity of their author easily apparent.

If an editor desires to draw a conclusion on the case let him sign it. Do not hide behind the impersonality of the paper with your personal opinions.

(2) In dealing with the suspicions against agents of private institutions facts alone put in their true relation should again be used.

But in this class of stories suspicions and conclusions should be confined to those of the parties directly interested, and no statement of one party to the affair reflecting upon another should be published without at the same time publishing a statement of the accused relative thereto.

The comment of those not directly involved should not be published previous to the arrest or pending the trial.

(3) In dealing with the offenses against private morality we should refuse to print any record of the matter, however true, until the warrant has been filed or the arrest made, and even then our report should contain only an epitome of the charges by the plaintiff and the answers by the defendant, preferably secured from their respective attorneys.

No society gossips or scandals, however true, should ever be published concerning such cases.

However prominent the principals, offenses against private morality should never receive *first page position* and their details should be eliminated as much as possible.

Certain crimes against private morality which are revolting to our finer sensibilities should be ignored entirely; however, in the event of their having become public with harmful exaggerations we may make an elementary statement, couched in the least suggestive language.

In no case should the reckless daring of the suspect be lionized.

(4) Except when the suspect has escaped his picture should never be printed.

FOR THE EDITOR

Views

Definition.—Views are the impressions, beliefs, or opinions which are published in a paper, whether from the editorial staffs of the same, outside contributors or secured interviews.

A Distinction.—We hold that whenever a publication confines the bulk of its views to any particular line of thought, class of views, or side of a mooted question, it becomes to that extent a class publication, and inasmuch ceases to be a newspaper.

An Explanation.—You will note by our definition of news that it is the impartial portrayal of the decent activities of mind, men and matter. This definition applied to class publications would be changed by replacing the word IMPARTIAL with the word PARTIAL.

In this section we will deal with IMPARTIALITY in the presentation of the decent activities of the mind of the community—with the views or editorial policy of a paper.

Responsibility.—Whereas a view or conclusion is the product of some mind or minds, and whereas the value and significance of a view is dependent upon the known merit of its author or authors, the reader is entitled and has the right to know the personal identity of the author, whether by the signature in a communica-

tion, the statement of the reporter in an interview or the caption in a special article and the paper as such should in no wise become an advocate.⁵

⁵ *Explanation and Argument.*—In presenting the activities of men and matter we should have regard for truth, regard for justice, regard for decency, while in the presentation of the activities of mind we should have regard for fairness, for impartiality—ours is a mission of presentation rather than one of formation. If a publication is a newspaper this fact should be stated in a conspicuous place; if a class publication it should state the line of thought it pretends to portray or defend.

There are a number of reasons for impartiality in presenting views, and its consequent absence of an editorial policy for News papers. Facts must be the foundation for all opinion. In social economics some agency must have the exclusive duty of providing the facts in their true relation. In the fitness of things this is the duty of the news press.

It is not probable that facts would all be printed in their true relation if their portrayers possessed motives for placing them in an untrue relation. Few men would lie outright, but to sustain their own views many men will convey an untruth by juggled arrangement of the relation of facts.

The presence in our country of a press devoted to the presentation of facts in their true relation is vitally essential to our political, economic, social and moral welfare. Hence when the intrusion of any notice would tend to generally disturb the presentation of facts in their true relation, we should repel the motive.

To sustain our personal views, the views of our advertisers, those of our political and financial friends, has often been the motive which disturbed our proper presentation of facts and views in their true relation. This motive may be called the editorial policy. If we did not have an editorial policy to sustain, large advertising, financial, political, and social interests to sustain, we would cease to have a serious motive for distorting the true relation of facts and the free relation of views.

Without gunpowder that is dry, armies cannot win.

Without truth of fact unencumbered by the false impression of untrue relations, social, economic and moral enlightenment must come to a dead standstill. Other things are needed, it is true, such as correct principles, but a first essential is facts, properly related. This is the mission of the news press—to secure it, let us cease to have editorial policies for the news press and demand that if a publisher wishes to run

Influence (editorial).—We should avoid permitting large institutions or persons to own stock in or make loans to our publishing business if we have reasonable grounds to believe that their interests would be

a partisan, or class organ, that he state the party or class of thought he pretends to defend, in a conspicuous place, that the reader may season his statements of fact and opinion with the motive which would underlie their presentation. We haven't the slightest objection to an editor running a partisan paper but he should make his partisanship known.

The elimination of the editorial policy would turn our attention to the views of our community. In a government by the people a prime essential is a free press. If the people have a free press and no ideas that essential becomes worthless. If you accustom the people to the habit of turning to the press for their ideas it soon becomes a government by the press, and of course for those who control the press.

If we permit our publishing institutions the privilege of having editorial opinions, our advertisers who control so much of our incomes will control our columns, and business is the least competent to create public opinion upon a public question, for it has become so habituated to measuring everything by its profit earning capacity that it can seldom consider a proposition except through the lens of its own special interest. And too often our advertisers and financial backers do demand this privilege, cautiously, 'tis true, but nevertheless firmly.

Strong editors have battled against this tendency for years but the people on the outside cannot appreciate what a decided stand otherwise really good and worthy men will take against an editor who is also good and worthy, because he does not agree with them upon public questions and men.

We boast of a free press—the most vigorous censorship in the world is the censorship which the business of the large advertisers have over our columns.

A lawyer would be disbarred if he contracted to sell his knowledge of law to one client and at the same time accepted a fee from the second party to the case. A newspaper in its analysis is a contract of an editor to sell his knowledge of his field to his subscribers; and his acceptance of a fee by any one whose interests are affected by the presentation of such knowledge is a contradiction of his obligation, with the result that the client with the largest fee gets the best of his service.

Such a practice would disbar a lawyer and the same principle of fair play which it violates

seriously affected by any other than a true presentation of all news and a free willingness to present every possible point of view under signature or interview.

in law it violates in the case of the editor. We should either run an advertising paper and acknowledge that our viewpoint is that of the advertisers or we should run a newspaper and make good our contract with our subscribers.

If we run a newspaper and receive the bulk of our income from our advertisers our success becomes vitally dependent upon that of the big advertiser and we voice what suits his interests to increase our income. Now when the interests of the advertiser and the readers are in harmony, no mischief is done, but when they conflict is where the wedge begins to enter into the violation of our contracts with the reader.

Charles Russell says: "No newspaper of standing would venture to print any matter condemned by business, nor fail to print any matter, though sometimes very ill-founded, that business required to have printed."

Realizing that winning patronage and exploiting one's convictions of conscience do not mix with success, let us publish papers without a partisan or editorial policy, but extending every possible latitude and encouragement to all classes of people to voice all decent opinions.

Let us not formulate legislation, conduct campaigns for public men or measures or organize movements.

Business will entertain a desire (to which it knows the sensitive editor will respond) for a sentiment which, were they made personally responsible, they would not permit for a moment.

The night riders of Kentucky will do when their identity is unknown that which their own sense of shame would forbid were it otherwise.

Some tell us that we should stand for the right of the masses even though it does oppose the interests of our greatest patrons. They say that heroes and patriots sacrificed wealth and honor for truth and justice. This is not generally true. At best they sacrificed but the opportunities for wealth and honor. Power, wealth and fame never tasted cannot be a sacrifice.

But the metropolitan publisher of today, with his millions invested, with his years of toil invested, with his thousands borrowed upon a business worth based on its earning capacity, with his daily expense bill running into the thousands, with financial, social and political bankruptcy staring him in the face whenever he contemplates a policy of justice to, or sympathy for the unorganized masses, upon a matter which

Influence (reportorial).—No reporter should be retained who accepts any courtesies, unusual favors, opportunities for self gain, or side employment from any factors whose interests would be affected

goes contrary to the interests of his big business patrons, is tempting a sacrifice of that which he has already tasted, wealth, power and fame, and though such a course would not lead to the guillotine, it would practically lead to a repudiation of his debts, which would in itself be a moral crime, for self preservation is the first law of nature.

If you can't drink whiskey without getting drunk don't drink it at all. If your paper as an impersonal institution can't express an opinion from your free and enlightened conscience, don't express one at all. Make it a business institution dealing in the news and opinions of others.

There is another and quite as powerful reason. No man knows nor understands all things. No staff of news editors are competent to pass upon all questions of public interest. To enlighten the public upon mooted questions, secure the expressions of specialists, and make them personally responsible for the same.

We do not have the sluggish to fear, it is the eminently respectable business and professional men who through subtle suggestion, conscious of the power they hold over our welfare, compel us to echo the ideas which are theirs. Men of affairs expect and get special favors, and the corrupt politician is maintained in power through the exchange of these favors, as business men need favors of the legislature also.

No better evidence of the decline of the value of our press opinions can be found than many recent cases where city elections have been carried against the united opinion of the press. Press freedom like personal freedom is good, but its permanence like that of the latter is only secured by good moral self-control, hence the necessity of an organized code of ethics. Our great dailies are great impersonal machines—adjuncts of the business and political world. Reënter the personality by extensive interviews requiring all opinion of the staff to be identified by the author. A man so far away from us as Tolstoy, who is a keen observer of affairs, tells us there exists in this country a so-called free press, but it is only apparent, for the whole press is controlled by wealthy persons admitting of no advancement for the plainest people.

Let opinions be as free as the air we breathe. Jefferson tells us that truth is great and will prevail if left to herself, she is the proper and sufficient antagonist of error, and has nothing to

by the manner in which his reports are made.⁶

Deception.—We should not allow the presumed knowledge on the part of the interviewed that we are newspaper men to permit us to quote them without their explicit permission, but where such knowledge is certain we insist upon our right to print the views unless directly forbidden.

Faith with Interviewed.—An interview or statement should not be displayed pre-

fear from the conflict unless by HUMAN INTERPOSITION disarmed of her natural weapons—free argument and debate; errors ceasing to be dangerous when it is permitted freely to contradict them. The theory of a free press demands the liberty to know and to utter according to conscience, and it should be our duty to restrict that utterance to the conscience. We have a free will to do good or evil; if we do not do good a power greater than ourselves will destroy this freedom and its possessor.

My proposal that every view have the personal identity of its owner apparent and that the paper as an institution should not pretend to have that which no impersonal thing could have—views, emphasis, responsibility and impartiality in presenting the activities of mind.

"There is a tendency," says John J. Hamilton, "always for existing institutions, good and bad, to own the press and control its utterances. New ideas, valuable as well as visionary, have difficulty in getting a hearing; yet it is to the interest of society that they have free vent—the valuable ones so that they may be adopted and

vious to its publication without the permission of the author.

Bounds of Publicity.—A man's name and portrait are his private property and the point where they cease to be private and become public should be defined for our association.

the visionary ones so that they may find expression and lose their explosive force.

As generations are added to the history of newspaper making we must at times rescue our freedom of expression from the subtle encroachments of the power of wealth, of law, of finance and of commerce. You may say that such a practice as I would make common to the newspapers, would make the expression, public opinion, a synonym for chaos. Well, let us abhor a crystallized public opinion for is not such a condition an evidence of intellectual stupidity. Let the news press be the battle ground, the arena, of the ideas of the people, leaving to the class publications the work of proclaiming or defending any particular set of ideas.

⁶ *Note.*—The larger perspective and experience of men of affairs would make of them a wiser influence upon the policy of a paper were it not that their own interests so often run contrary to the interests of the great unorganized masses. It is not a matter of intelligence with the masses—we admit in general the superior wisdom of great industrial, financial and commercial giants who have come from the ground up, but deny their proper interest and sympathy as a potent factor in moulding the policy of a paper.

Declaration of Principles and Code of Practice

Adopted by the Missouri Press Association at Columbia, Missouri, May 27, 1921

PREAMBLE

IN America, where the stability of the government rests upon the approval of the people, it is essential that newspapers, the medium through which the people draw their information, be developed to a high point of efficiency, stability, impartiality and integrity. The future of the republic depends on the maintenance of a high standard among Journalists. Such a standard cannot be maintained unless the motives and conduct of the members of our profession are such as merit approval and confidence.

The profession of Journalism is entitled to stand side by side with the other learned professions and is, far more than any other, interwoven with the lines of public service. The Journalist can not consider this profession rightly unless he recognizes his obligation to the public. A newspaper does not belong solely to its owner and is not fulfilling its highest functions if devoted selfishly. Therefore the Missouri Press Association presents the following principles as a general guide, not as a set form of rules, for the practice of Journalism.

EDITORIAL

We declare as a fundamental principle that Truth is the basis of all correct Journalism. To go beyond the truth, either in headline or text, is subversive of good Journalism. To suppress the truth, when it properly belongs to the public, is a betrayal of public faith.

Editorial comment should always be fair and just and not controlled by business or political expediency. Nothing should be printed editorially which the writer will not readily acknowledge as his own in public.

Control of news or comment for business considerations is not worthy of a newspaper. The news should be covered, written and interpreted wholly and at all times in the interest of the public. Advertisers have no claim on newspaper favor except in their capacity as readers and as members of the community.

No person who controls the policy of a newspaper should at the same time hold office or have affiliations, the duties of which conflict with the public service that his newspaper should render.

ADVERTISING

It is not good ethics nor good business to accept advertisements that are dishonest, deceptive or misleading. Concerns or individuals who want to use your columns to sell questionable stocks or anything else which promises great returns for small investment should always be investigated. Our readers should be protected from advertising sharks. Rates should be fixed at a figure which will yield a profit and never cut. The reader

deserves a square deal and the advertiser the same kind of treatment.

Advertising disguised as news or editorial should not be accepted. Political advertising especially should show at a glance that it is advertising. It is just as bad to be bribed by the promise of political patronage as to be bribed by political cash.

To tear down a competitor in order to build up one's self is not good business, nor is it ethical. Newspaper controversies should never enter newspaper columns. Good business demands the same treatment to a competitor that one would like for a competitor to give to one's self. Create new business rather than try to take away that of another.

Advertising should never be demanded from a customer simply because he has given it to another paper. Merit, product and service should be the standard.

SUBSCRIPTION

The claiming of more subscribers than are actually on the paid list in order to secure larger advertising prices is obtaining money under false pretenses. The advertiser is entitled to know just what he is getting for his money, just what the newspaper is selling to him. Subscription lists made up at nominal prices or secured by means of premiums or contests are to be strictly avoided.

OUR CODE:

In every line of journalistic endeavor we recognize and proclaim our obligation to the public, our duty to regard always the truth, to deal justly and walk humbly before the gospel of unselfish service.

Creed of the Industrial Press

Adopted by the Federation of Trade Press Associations in 1913

1. We believe the basic principle on which every trade paper should build is SERVICE—service to readers and service to advertisers, in a way to promote the welfare of the general public.

2. We believe in TRUTH as applied to editorial, news, and advertising columns.

3. We believe in the utmost frankness regarding circulation.

4. We believe the highest efficiency of the business press of America can be secured through CIRCULATIONS OF QUALITY rather than of QUANTITY—the character, and not mere numbers, should be the cri-

terion by which the value of a publication should be judged.

5. We believe in coöperation with all those movements in the advertising, printing, publishing, and merchandising fields which make for business and social betterment.

6. We believe that the best interests of the manufacturers, the business press, and consumers can be advanced through a greater interchange of facts regarding merchandise and merchandising, and to this end invite coöperation by manufacturers and consumers.

7. We believe that the logical medium to carry the message of the manufacturer directly to the distributor and the user is the business press.

8. We believe that while many advertis-

ing campaigns may profitably employ newspapers, magazines, outdoor displays, etc., no well-rounded campaign seeking to interest the consumer or user is complete without the business press.

9. We believe in coöperation with all interests which are engaged in creative advertising work.

10. We believe that business papers can best serve their trades, industries, or professions by being leaders of thought; by keeping their editorial columns independent of the counting-room, unbiased and unafraid; by keeping their news columns free from paid reading notices and puffery of all kinds; by refusing to print any advertisement which is misleading or which does not measure up to the highest standards of business integrity.

Standards of Practice for Business Papers

Adopted by American Business Papers, Incorporated, in 1916

The publisher of a business paper should dedicate his best efforts to the cause of business and social service, and to this end should pledge himself:

First: To consider first the interests of the subscriber.

Second: To subscribe to and work for truth and honesty in all departments.

Third: To eliminate, so far as possible, his personal opinions from his news columns, but to be a leader of thought in his editorial columns and to make his criticisms constructive.

Fourth: To refuse to publish puffs, free reading notices, or paid write-ups; to keep his reading columns independent of advertising considerations, and to measure all news by this standard: "Is it real news?"

Fifth: To decline any advertisement which has a tendency to mislead or which does not confirm to business integrity.

Sixth: To solicit subscriptions and advertising solely on the merits of the publication.

Seventh: To supply advertisers with full information regarding character and extent of circulation, including detailed circulation statements, subject to proper and authentic verification.

Eighth: To coöperate with all organizations and individuals engaged in creative advertising work.

Ninth: To avoid unfair competition.

Tenth: To determine what is the highest and largest function of the field which he serves, and then to strive in every legitimate way to promote that function.

Standards of Editorial Practice

Adopted by the Editorial Conference of the New York Business Publishers Association, June 17, 1921

The editor of a business paper should dedicate his best efforts to the advancement of the industry which his paper represents in all ways consistent with the public welfare, as well as to measures of

public service, and to this end should pledge himself:

1. To consider first the interests of the subscriber.

2. To work for truth and honesty in all departments of his paper.

3. To publish in an impartial way, free from personal opinion, the news of the industry in which the paper circulates.

4. To disregard advertising considerations in the editorial conduct of his paper.

5. To be a leader of thought in his editorial columns and to make his criticisms constructive, with the object of bringing his

industry to higher levels of thought and practice and to a greater measure of public service.

6. To support in his columns such worthy measures of public interest as their importance justifies and the space available permits.

7. To give proper credit for articles taken from other publications, and to avoid unfair practices in competition with them.

Standards of Practice of the British Association of Trade and Technical Journals¹

Every trade or technical journal should be a live newspaper, vigorously promoting the business interests of its readers and its advertisers.

Every business paper must justify its existence by the quality of its news and technical service.

Frankness and independence should dominate our editorial pages; all articles, or reviews or contributions which are not strictly justified by their interest and value to readers, and all paid and conditional notices, should be rigidly excluded.

All circulation statements should be honest, and quality of circulation and editorial character should be the leading criteria of value.

¹ Reprinted from *Printers' Ink*, May 30, 1918.

Honesty should dominate our advertising pages; in justice to readers and fair trading advertisers, all announcements of a doubtful or misleading character should be excluded.

Advertising space should be bought and sold on precisely the same basis as other commodities, *i.e.* on value for money.

Coöperation is desirable with all interests which are concerned with the extension of business publicity, and with improving its power and efficiency.

By pledging ourselves to these principles we are adopting a standard which is good, which is dignified, which is lasting. We are giving to our public the best possible assurance of honest and effective service.

The Code of Ethics for Accountants

Adopted by the American Institute of Accountants in 1916

1. A firm or partnership, all the individual members of which are members of the Institute (or in part members and in part associates, provided all the members of the firm are either members or associates), may describe itself as "Members of the American Institute of Accountants," but a firm or partnership, all the individual members of which are not members of the Institute (or in part members and in part associates), or an individual practising under a style denoting a partnership when in fact there be no partner or partners, or a corporation or an individual or individuals

practising under a style denoting a corporate organization, shall not use the designation, "Members (or Associates) of the American Institute of Accountants."

2. The preparation and certification of exhibits, statements, schedules or other forms of accountancy work, containing an essential misstatement of fact or omission therefrom of such a fact as would amount to an essential misstatement, or a failure to put prospective investors on notice in respect of an essential or material fact not specifically shown in the balance-sheet itself, shall be *ipso facto* cause for expulsion

or for such other discipline as the Council may impose upon proper presentation of proof that such misstatement was either wilful or the result of such gross negligence as to be inexcusable.

3. No member shall allow any person to practise in his name as a public accountant who is not member of the Institute or in partnership with him or in his employ on a salary.

4. No member shall directly or indirectly allow or agree to allow a commission, brokerage or other participation by the laity in the fees or profits of his professional work; nor shall he accept directly or indirectly from the laity any commission, brokerage or other participation for professional or commercial business turned over to others as an incident of his service to clients.

5. No member shall engage in any business or occupation conjointly with that of a public accountant, which in the opinion of the Executive Committee or of the Council is incompatible or inconsistent therewith.

6. No member shall certify to any accounts, exhibits, statements, schedules or other forms of accountancy work which have not been verified entirely under the supervision of himself, a member of his firm, one of his staff, a member of this institute or a member of a similar association of good standing in foreign countries which has been approved by the Council.

7. No member shall take part in any effort to secure the enactment or amendment of any state or federal law or of any regulation of any governmental or civic body, affecting the practice of the profession, without giving immediate notice thereof to the Secretary of the Institute, who in turn shall at once advise the Executive Committee or the Council.

8. No member shall directly or indirectly solicit the clients or encroach upon the business of another member, but it is the right of any member to give proper service and advice to those asking such service or advice.

9. For a period not exceeding two years after notice by the Committee on Ethical Publicity no member or associate shall be permitted to distribute circulars or other instruments of publicity without the consent and approval of said committee.

10. No member shall directly or indirectly offer employment to an employe of a fellow member without first informing said fellow member of his intent. This rule shall not be construed so as to inhibit negotiations with anyone who of his own initiative or in response to public advertisement shall apply to a member for employment.

11. No member shall render professional service, the anticipated fee for which shall be contingent upon his findings and results thereof.

Canons of Commercial Ethics

Adopted by the National Association of Credit Men

Canon No. 1.—It is improper for a business man to participate with a lawyer in the doing of an act that would be improper and unprofessional for the lawyer to do.

Canon No. 2.—It undermines the integrity of business for business men to support lawyers who indulge in unprofessional practices. The lawyer who will do wrong things for ONE business man injures ALL business men. He not only injures his profession, but he is a menace to the business community.

Canon No. 3.—To punish and expose

the guilty is one thing; to help the unfortunate but innocent debtor to rise is another; but both duties are equally important, for both duties make for a higher moral standard of action on the part of business men.

Canon No. 4.—In times of trouble, the unfortunate business man has the right to appeal to his fellow business men for advice and assistance. Selfish interests must be subordinated in such a case, and all must coöperate to help. If the debtor's assets are to be administered, all creditors must join in coöperating. To fail in such

a case is to fall below the best standards of commercial and association ethics.

Canon No. 5.—The pledged word upon which another relies is sacred among business gentlemen. The order for a bill of goods upon which the seller relies is the pledged word of a business man. No gentleman in business, without a reason that should be satisfactory to the seller, may cancel an order. He would not ask to be relieved of his obligation upon a note or check, and his contracts of purchase and sale should be equally binding. The technical defense that he has not bound himself in writing may avail him in the courts of law, but not of business ethics.

Canon No. 6.—Terms of sale as a part of a contract touching both net and discount maturity, are for buyer and seller alike binding and mutual, unless modified by previous or concurrent mutual agreement.

No business gentleman may, in the performance of his contracts, seek small or petty advantage, or throw the burden of a mistake in judgment upon another, but must keep his word as good as his bond, and when entering into a contract of sale faithfully observe the terms, and thus redeem the assumed promise.

Canon No. 7.—It is always improper for one occupying a fiduciary position to make a secret personal profit therefrom. A member of a creditors' committee, for example, may not, without freely disclosing the fact, receive any compensation for his services, for such practices lead to secret preferences and tend to destroy the confidence of business men in each other. "No man can serve two masters."

Canon No. 8.—The stability of commerce and credits rests upon honorable methods and practices of business men in their relations with one another, and it is improper for one creditor to obtain or seek to obtain a preference over other creditors of equal standing from the estate of an insolvent debtor, for in so doing he takes, or endeavors to take, more than his just proportion of the estate and therefore what properly belongs to others.

Canon No. 9.—Coöperation is unity of action, though not necessarily unity of thought. When the administration of an

insolvent estate is undertaken by the creditors through friendly instrumentalities, or when, after critical investigation, creditors representing a large majority of the indebtedness advise the acceptance of a composition as representing a fair and just distribution of a debtor's assets, it is uncoöperative and commercially unethical for a creditor to refuse the friendly instrument or the composition arbitrarily and force thereby a form of administration that will be prejudicial and expensive to the interests of everyone concerned.

Canon No. 10.—Our credit system is founded on principles, the underlying elements of which are coöperation and reciprocity in interchange. When ledger and credit information is sought and given in a spirit inspiring mutual confidence, a potent factor for safety in credit granting has been set at work.

The interchange of ledger and credit information cannot fulfill its best and most important purposes unless guarded with equal sense of fairness and honesty by both the credit department that asks for the information and the credit department that furnishes it.

Recognizing that the conferring of a benefit creates an obligation, reciprocity in the interchange of credit information is an indispensable foundation principle; and a credit department seeking information should reciprocate with a statement of its own experience in the expectation of getting the information sought; and a credit department of which information is sought should respond fairly and accurately because the fundamentals of credit interchange have been observed in the manner the request was made of it.

Failure to observe and defend this principle would tend to defeat the binding together of credit grantors for skilful work—a vital principle of the credit system—and make the offending department guilty of an unfair and unethical act.

Canon No. 11.—The foundation principle of our credit structure—cooperation—should dominate and control whenever the financial affairs of a debtor become insolvent or involved, that equality thereby may be assured to the creditors themselves and justice to the debtor.

The control of any lesser principle produces waste, diffusion of effort and a sacrifice of interests, material and moral, with a separation of creditor and debtor that is offensive to the best laws of credit procedure.

Coöperation and unity save, construct and prevent; therefore, individual action pursued regardless of other interests in such situations, whether secretly or openly expressed by either creditor or debtor, is unwise and unethical.

Canon No. 12.—The healthy expansion of commerce and credits, with due regard to the preservation of their stability and healthfulness, demands an exact honesty in all of the methods and practices upon

which they are founded. Advertising is an important feature in business building; it should represent and never misrepresent; it should win reliance and never cover deceit; it should be the true expression of the commodity or the service offered. It must be deemed, therefore, highly improper and unethical for advertisements to be so phrased or expressed as not to present real facts, and either directly or by implication to mislead or deceive. In this department the finest sense of honesty and fairness must be preserved, and the right relations of men with one another in commerce and credits clearly preserved.

Book Department

CAPEs, WILLIAM PARR. *The Modern City and Its Government*. Pp. xv, 250. Price, \$5.00. New York: Dutton, 1922.

The author of this book is the Secretary of the New York State Conference of Mayors and Other City Officials. He has brought to its writings the fruits of long experience with municipal problems and close contact with city officials, both in his own state and elsewhere. *The Modern City and Its Government* is perhaps the best practical discussion of municipal organization which has appeared in more than a decade.

Three chapters, or about one-third of the book, are taken up with a discussion of the prevailing types of American city government—the federal, the commission and the commission-manager forms. The last two supply the most comprehensive appraisal of the results of the newer forms of city government which is available in compact form. It is the author's opinion that the newer types of organization have made three valuable contributions to the movement for good city government: the establishment of the short ballot principle, election at large for city councils, and simplification of governmental machinery. While these contributions were made by the commission and commission-manager cities they are capable of application in the traditional federal type of organization.

The author is also strongly of the opinion that citizen interest and efficient personnel are essential to good government and that these are attainable without recourse to radical changes in organization. These views are no longer original, but Mr. Capes sees signs of a strong revival of citizen interest and a tendency of officials to substitute ideals of service for "spoils" as motives in the public service. Citizen interest is making itself effective in the growing number of privately-supported bureaus of municipal research, municipal reference libraries, taxpayers' associations, and similar citizen bodies. That public officials are beginning to take their duties seriously is evidenced by the number of active organ-

izations seriously engaged in a scientific study of municipal problems. Three national organizations with these purposes now exist and leagues of municipalities are at present organized in twenty-five states. The work of such leagues in supplying city officials with the data needed to guide them in their work and to judge of the effectiveness of new and proposed methods is of primary importance, promising, as it does, to put an end to "hit or miss" methods in the administration of city problems.

The volume closes with three chapters dealing with school and financial administration. Fifteen charts illustrating typical forms of municipal organization and a classified bibliography of seven pages add considerably to its value.

LANE W. LANCASTER.

VINOGRADOFF, SIR PAUL. *Outlines of Historical Jurisprudence*. Volume One; Introduction, Tribal Law. Pp. ix, 428. Oxford University Press, 1920.

The study of law is often regarded as a highly specialized study, only remotely related to other intellectual pursuits, and therefore best pursued in cloistered Inns of Court, unconnected with the university atmosphere of an Oxford or Cambridge so unconcerned with the legal thought of the Roman world. Or, to give American color to our representation of the study of law, it is often assumed to be the mastery of an honorable trade which finds its tools in the precedents of judicial decisions, admirable in their time, but not in harmony with the actual life of today. No better corrective of this view, if it really obtains in any law school, could be found than the initial volume of Professor Vinogradoff's *Outlines of Historical Jurisprudence*.

Nearly half the volume is given to an introduction which treats of the relation of jurisprudence to other sciences. Logic is naturally first considered, and it is shown that an excess of abstract dialectics may easily pervert legal rules, an error into which French and continental jurists run more frequently than the more practica-

English lawyers. The current findings of psychology cannot but influence law and this is no less true when the field is extended to society. Social psychology blends into sociology. The same is true of political science and political economy, particularly of the former. The science of law cannot be isolated from these social sciences, for it is itself a social science and subject to every movement of opinion and to every change in social conditions.

That jurisprudence is not static but subject to periodic changes is shown by the professor's successive chapters upon the rationalists, like Bentham, the nationalists, like Savigny, and the evolutionists, like von Ihering. Each school was the embodiment of the dominant spirit of the period, and each made contribution to a progressive jurisprudence.

After evaluating the legalistic tendencies of the present age the author delves into the remote past for the roots of historical jurisprudence. This he does by the aid of anthropological inquiries collected from all parts of the world. His scheme for the series involves the systematic treatment of the following subjects: 1. Origin in totemistic society, 2. Tribal law, 3. Civic law, 4. Medieval law in its combination as canon and feudal law, 5. Individualistic jurisprudence, and 6. Beginnings of socialistic jurisprudence. The sub-title of the present volume is "Tribal Law" though several chapters belong to the first division of his scheme.

It is strange enough to begin historical jurisprudence with the selection of mates in a period long antedating history. Yet the *patria potestas* of the Roman law is a development from still earlier custom and is the better understood when seen as a stage in the progress of civilization. Out of the patriarchal household grew the joint family, with its expansion into the clan and the tribe. The tribe was a confederation of related clans. Between these clans there was arbitration, just as now international law is a body of rules created by agreement. Criminal and civil procedure began to develop at a time when the element of public compulsion was absent. As in international law today so in tribal law there were incomplete sanctions. Self-

help was recognized but regulated. When private execution failed the public sanction or outlawry was resorted to. Closely connected with the patriarchal household and the joint family were succession and inheritance. Of chattels in pre-Christian time the dead man's share was buried or burned with the body, but later the Church was intrusted with this share to spend for the good of his soul. The remaining chattels were capable of equitable division, but a farm was regarded as an organic entity to which personal sharing was not appropriate. Indeed land tenure had its origin in tribal ownership rather than in strictly personal ownership. This tribal ownership developed into communal, out of which grew the open-field system, once universal in Europe, just as this in time was displaced by a more scientific agriculture and more individualistic legal theory. The Roman civil law, German private law, and the English common law all find the key to their understanding in the tribal law so different from the ideal creations of Bentham and Austin.

This work of a cosmopolitan scholar marks a distinct stage of progress from the pioneer work of Professor Main, *Ancient Law*, but it lacks the charm of that classic.

C. H. MAXSON.

FINER, HERMAN. *Foreign Governments at Work*. Pp. 84. Oxford University Press, 1921.

This brief booklet of eighty-four pages aims to give for study classes a summary of the outstanding features of the government of France, Germany and the United States. The author holds that institutions are alike the world over, mainly through imitation. The Declaration of Independence and the movement for political rights which followed, swept the world; everywhere parliaments were formed. So also the great drive for economic democracy has already spread over wide sections in Whitley Councils, Works' Councils and Soviets. With these two standards of political and economic democracy in mind, the author examines briefly the government of each of the countries named. Although it seems well nigh impossible to do so in eighty

pages, he gives us a fairly intelligible and useful impression of both the mechanics and the spirit of each government. His tone is impartial, his judgment fair and his style interesting. The booklet is by far the best and most useful survey of the subject thus far offered in such brief compass.

HASKINS AND LORD. *Some Problems of the Peace Conference*. Pp. 307. Price, \$3.00. Harvard University Press, 1920.

Of all the books relating to the Paris Conference, the volume published by Professors Haskins and Lord gives the clearest insight into the problems confronting the Conference and the difficulties encountered in their solution. Whether dealing with Alsace-Lorraine, the Rhine and the Saar, Poland, Austria, or Hungary, there is evident in every chapter the broad grasp of the thorough historical student, as well as a keen insight into the larger political elements of the situation. No other book gives so clear a view of the difficulties confronting the American Delegation to the Peace Conference in endeavoring to secure an equitable settlement.

JONES, CHESTER LLOYD. *Mexico and Its Reconstruction*. Pp. x, 319. Price, \$3.50. New York: D. Appleton & Co., 1921.

The past few years have witnessed a flood of books on Mexico. Of those in English, the discerning reader might count upon the fingers of one hand all that he thought worth while. If he did so, he could hardly omit the present volume. Yet it owes its inception and its subject matter to sources that are often charged with insidious propaganda against the well-being of our southern neighbors.

Some four years ago a prominent oil producer financed a project for a careful study of the "Mexican problem." A foundation thus supported would naturally be termed capitalistic in its leanings, and its work was also hampered by the not unnatural ill-favor shown by the Mexican executives of that day. Yet the men and women who worked under its auspices succeeded in bringing together a mass of valuable material as a result of their researches in libra-

ries and government repositories, from personal interviews, and by means of brief visits to Mexico itself. Some of this would serve as an excellent antidote to better-known partisan investigations, but, unfortunately, much of it has not yet been utilized. The few volumes that have appeared, like the present, show that the promise of the sponsor to give the individual writers perfect freedom to express the truth as they see it has been carried out. It is well to note this fact because in other instances ill considered charges to the contrary have too readily been made.

The content of the present volume is predominantly economic. It is essentially "practical," closely resembling the author's companion book dealing with Caribbean lands. Its table of contents shows that he has made excellent use of the resources of the foundation. None of the chapters are general in character, but the first two serve to introduce the others. Three are devoted to the government of the country and as many to its finances. The Mexican laborer is given four, in all of which his economic status is emphasized, and an equal number treat of commerce, transportation and industry. Of those remaining, one deals with colonization, two with the foreigners, one with border problems, past and present (but not those involving to any extent the deeper human elements), and one with the general relations between Mexico and the United States.

The author tells a straightforward story and he is not unduly didactic or distressingly pessimistic. He has no sovereign remedy for Mexico's ills, but he makes clear what many of them are. He presents few conclusions and those largely by indirection. His data will not permit much else. His footnotes and bibliography show a definite purpose to master the details of his subject, and he packs these details into his chapters in surprising abundance. His book will prove a valuable storehouse of information for the phases that he emphasizes, and, within the economic limits that he has set for himself, a welcome guide. A good index and a small map showing the political divisions and productiveness of Mexico add to its usefulness.

ISAAC J. COX.

WESTERFIELD, R. B. *Banking Principles and Practice*. Pp. xxxii, 1370. In five volumes, not sold separately. Price, \$12.00. New York: The Ronald Press Co., 1921.

Most books on banking may be divided into two classes, the first consisting of those which present the theoretical principles of money and banking and the history of banking and currency in the United States prior to the passage of the Federal Reserve Act. Chapters on the chief foreign banking systems are often included because of their bearing on the question of banking reform in the United States. To the business man books of this type have seemed to overemphasize the theoretical and historical aspects of the subject; they have failed to answer for him many practical questions concerning his own relations with the financial organization. The second type has gone to the opposite extreme, and by placing chief emphasis on the practical details of bank operations and accounting, has almost entirely ignored the provision of a background. Books of this type fail to show that our modern banking system is the product of evolution, and that it performs valuable economic services. These five volumes by Professor Westerfield embody an attempt to combine the theoretical with the practical approach in "a comprehensive description of the banking system of the United States," a task impossible to accomplish within the limits of a single volume.

The author aims "to present so much of the historical and genetical background of institutions and practices as will give them a true setting and explain their fundamental nature," and to achieve "an intimate correlation of banking theory and banking practice, giving in the first volume the underlying theory of money, credit, and banking as a prerequisite to an effective presentation in the remaining volumes of the organization and practice of the system as a whole, and of the individual member of that system, and indicating at every opportunity in the treatment of the internal and external operations of a bank the theory underlying the practice." These aims are successfully realized on the whole, though it

should be said that many more chapters are devoted to description than to analytical discussion of the economic issues involved in the evolution and present tendencies of our banking system.

The presentation of the theoretical principles of money and banking conforms closely to the traditional treatment, with due recognition, however, of recent criticism of some of the tenets of the older writers on this subject. There are many controverted issues, for instance, the value of government guaranty of bank deposits, upon which the author expresses no definite opinion, contenting himself with a statement of the question and the chief arguments pro and con. At the present time of experiment and change in financial organization, dogmatic assertions are admittedly unjustified and dangerous, but the writer feels that Professor Westerfield has let slip opportunities to educate public opinion by his failure to make definite recommendations in regard to many unsettled problems. For example, the vital question of the discount policy of the Federal Reserve Board is treated so briefly that the reader is not impressed with its direct bearing upon the material well-being of the country.

The second volume is chiefly concerned with the Federal Reserve System, and the remedies it applies to the defects of our old banking structure. The third and fourth volumes describe minutely the internal organization of a bank, and the routine work of the various departments. In the fifth volume there is a complete account of the "foreign division" of a bank and a concentrated treatment of the elements of foreign exchange. In view of our newly awakened national interest in foreign trade and the general ignorance of business men regarding the methods of financing imports and exports, this timely volume fills a real need.

The value of this work to the economist does not lie in any original contributions to the body of accepted theory, or in any new analysis of current problems, but in the immense store of information here gathered together and systematically arranged, which will be as useful to him as to the business man, to whom the appeal of the book

is primarily directed. For the latter this is both a reference work and a treatise on banking, with enough sound theory to provide that background usually lacking in "practical" books.

It should be noted, in conclusion, that many illuminating charts and graphs are scattered through the volumes, and that much valuable statistical material is incorporated in the text. Reference to any particular topic is made easy by a table of contents and index for each volume in addition to the general index.

MORGAN B. CUSHING.

NICHOLSON, J. SHIELD. *The Revival of Marxism*. Pp. 145. Price, \$2.25. New York: E. P. Dutton and Company, 1921.

Revival of socialistic discussion during and since the War has very naturally and properly brought with it a considerable amount of literature on the subject. Two of the most interesting and valuable have been Loria's *Karl Marx* and Nicholson's *The Revival of Marxism*.

Professor Nicholson, after an introductory chapter entitled "Causes of the Revival" utilizes the recent bitter controversy between Nikolai Lenin and Karl Kantsky as a starting point, contrasting the views of these two disciples of Marx. The conservatism of the author inclines him, of course, to the views of Kantsky.

This does not mean, however, any sympathy with socialistic theories, for the bulk of the volume is devoted to a criticism of one after another of the leading Marxian theories—the nature of the proletariat, the State, the two phases of communism, theories of value, profits, wages, etc. The attack on the various theories is well stated, clear and effective. To those familiar with the subject there are no new ideas presented, but this was of course not intended. A conveniently arranged and concisely stated summary of the weaknesses of socialist theory is a valuable addition to the literature of the subject.

One could wish, however, that the subject had been approached a little differently. It is very doubtful if there is anything to be feared from any general acceptance of the orthodox Marxian views. If

socialism today is a movement of any significance, it is not because of an unqualified belief in Marx. The leaders of the movement have qualified his doctrine in many ways, and, what is more important, their effectiveness lies largely in their denunciation of capitalistic weaknesses and in their picture of a better organization for the future.

What is greatly needed is a volume that will effectively picture, first, the fact that so-called capitalism is itself a rapidly changing form of organization, and second, show us what promises, if any, the conservatives can give us of a considerable and rapid improvement in our economic welfare. It is the failure of capitalism to picture and enthusiastically work for a better order that gives strength to many of the attacks against it.

ERNEST M. PATTERSON.

FRIEDMAN, ELISHA M. *International Finance and Its Reorganization*. Pp. xli, 703. Price, \$7.00. New York: E. P. Dutton and Company, 1922.

This is the fifth of a valuable series of volumes by the same editor. One of their merits is that the selections used are not presented in a disjointed manner, but are well woven together and thus made much more valuable for private reading and for class use by teachers.

The ground covered is a wide and complex one, but is divided into two main parts: (A) The Effects of the War and (B) Factors in the Financial Reorganization. A little arbitrariness in arrangement can well be ignored under the circumstances. The editor's decision not to include the experiences of too many countries, but to limit himself to the best known and (to us) most important—England, France and Germany—is to be commended.

Two other features are to be noted. One is the discussion in the second section, which is on "reorganization," of a series of topics that combine well both current interest and long-run value. This is particularly difficult in a volume that is of immediate importance, for many topics of great interest today will of course be forgotten in a few years. Capital levies, national bankruptcies, cancellation of debts, the

German indemnity, the recommendations of the Brussels Financial Conference, international loans and the relative importance of New York and London as financial centers are matters of continuing interest. On the other hand, the brief space given to the foreign exchanges is to be commended because of the fact that they are merely barometers of trade.

The second feature to be emphasized is the generous inclusion of historical and theoretical material. This decision also adds both to the present and to the future value of the volume. Many current books are greatly lacking in perspective, and are very soon of little value. This danger has been greatly modified in this instance by the choice of material.

ERNEST M. PATTERSON.

ROBINSON, LOUIS N. *Penology in the United States*. Pp. ix, 344. Price, \$3.00. Philadelphia: The John C. Winston Company, 1921.

With the exception of the revision of Wines' *Punishment and Reformation*, there has been no comprehensive study of our penal institutions, so far as I recall, since the original edition of which appeared near nearly thirty years ago. This fact alone would make the present volume worthy of note. Moreover, it is written by a man who has long been a student of crime and who has had practical experience as Chief Probation Officer in Philadelphia for some three years; who has served on a prison commission, and who has already written a book on *The History and Organization of Criminal Statistics in the United States*.

It is a pleasure to discover that the author has shown along with accurate knowledge of past conditions and earlier literature on his subject, a wide breadth of information as to existing institutions and methods and has been able to combine these in an interesting and stimulating survey. He appreciates the difficulties under which prison officials labor and yet is able to criticize. His fairness of view will commend him to all readers.

Beginning with a sketch of the theory of punishment, he passes to the local jail and lock-up and on to the various types of

state institutions both for children and adults. He then considers prison labor, the compensation of prisoners, probation and parole, the problems of management and supervision and closes the book with a carefully selected bibliography.

It is impossible here to digest the entire volume but we may indicate the next steps favored by Dr. Robinson.

1. The socializing of our criminal courts, that is, making them, as are our juvenile courts, interested not alone in determining guilt or innocence but in learning what to do with the offender. . . .
2. The further development of probation or some system of indenture, so that every court, instead of only a few, may have this excellent bit of machinery ready at hand to use with those cases for which it is peculiarly suited. . . .
3. The establishment of institutions for special types of offenders. . . .
4. The elimination of county and municipal jails as places of detention for sentenced prisoners.
5. Making easy the transfer from one penal institution to another, and from penal institutions to those commonly known as charitable.
6. The abolition of the death penalty.
7. Making the goal of prison administration the development of character. . . .

Perhaps the most interesting suggestion of the author is that prisons should be under the supervision of the educational department of the state, inasmuch as they are fundamentally educational in character now that we have passed the time when *punishment* as such was the dominant idea in our minds. This idea deserves consideration.

When one recognizes the difficulties caused by the divergent practice in our various states, it is easily seen that it is hard to give a brief and yet accurate survey of the entire country. Whatever our opinion as to the specific suggestions of the author he has placed us all under deep obligation. The book should be read by all who are in any way connected with the treatment of criminals.

CARL KELSEY.

REINSCH, PAUL SAMUEL. *An American Diplomat in China*. Pp. xii, 396. Price, \$4.00. New York: Doubleday Page and Company, 1922.

This volume by Dr. Reinsch, who was American Minister at Peking from 1913 to

may be read with extraordinary interest by all those who have a knowledge of political conditions in the Far East and of Chinese political personalities. It will be of interest to others but it is doubtful whether from its pages they will be able to gain a connected and consistent idea of what happened in China during the years that are covered. It is evident that the volume has been prepared by Dr. Reinsch from his notes, kept from day to day, and, while this method gives a vivacity to some of his pages, it does not yield the definite results that might have been obtained had particular topics been selected and fully treated in separate chapters.

That Dr. Reinsch was an able representative in China of American diplomatic interests there can be no doubt. The reviewer was several times in Peking, for considerable periods of time, while Dr. Reinsch was there, and can testify to the general respect with which he was regarded by the entire diplomatic body. He was also held in high esteem by the Chinese who seemed to have no doubt as to his sincere desire that their country should be justly and even benevolently dealt with by the other powers. It was a great grief to Dr. Reinsch, which he does not hesitate to express, when the American government failed at Paris to support China's plea for the restitution to her of the German rights in Shantung, and this, together with other disappointing acts of his government, led to his resignation in 1919.

In many places there are illuminating comments by Dr. Reinsch upon conditions in China—comments which show his keen powers of analysis and appreciation. These were to be expected of the author of the volume, *Intellectual and Political Currents in the Far East*. But the outstanding impression which one gains from the volume is the ruthlessness with which Japan has pursued her policies in China and in the Far East generally. Dr. Reinsch does not mince words as to this. "The Japanese were ready to take advantage of and to aggravate any weakness which might exist in Chinese social and political life. They would fasten like leeches upon any sore spot," is one of his statements. "The whole course of Japan in China during the

Great War alarmed both Chinese and foreigners," is another. "Japanese imperialistic politics with its unconscionably ruthless and underhanded actions and its fundamental lack of every idea of fair play," is still another. To those face to face with what Japanese militarism has been doing to Continental Asia, he says, there is left no doubt of its sinister quality—"Japan herself needs to be delivered from it, for it has used the Japanese people, their art and their civilization, for its own evil ends. More than that, it threatens the peace of the world. If talk of 'a better understanding' presupposes the continuance of such aims and motives as have actuated Japanese political plots during the past few years, it is futile. What is needed is a change of heart."

Following this last considered opinion, Dr. Reinsch reproduces at some length the substance of a memorandum upon which, he says, he based a cabled statement to the President of the United States of China's vital relation to future peace. The reviewer does not remember having before seen, from the pen of an American diplomatic official, an indictment so scathing of another country. It is to be hoped that, with the Washington Conference, there has come to Japan that change of heart which Dr. Reinsch declares to be so necessary.

W. W. WILLOUGHBY.

LINCOLN, EDMOND EARLE. *Problems in Business Finance*. Pp. 1, 525. Price, \$5.00. Chicago: A. W. Shaw Company, 1921.

Professor Lincoln has made a noteworthy contribution, not only to the list of textbooks in the field of finance, but also to the literature of the subject. Frankly abandoning the field hitherto occupied by the list of manuals which deal with corporation finance, banking and similar topics, he has addressed himself to the study of the problems of the medium sized and smaller industrial concerns, which constituted, he says, in 1914, 98.6 per cent of the total number of manufacturing concerns in the United States, producing more than 52 per cent of value in products. Professor Lincoln believes that the financ-

ing of railroads and public utilities, to which might also be added the financing of the larger industrials, present "a reasonable degree of standardization." The financial principles which should govern the management of the smaller manufacturing, trading and financial concerns have not been, in his opinion, sufficiently investigated.

He begins his discussion with a general survey of the field, which summarizes the more important rules of financial management in the launching of the concern, its growth, and its current management. These rules are familiar, indeed almost axiomatic. They have been discussed at length in numerous manuals, a list of which the author furnishes. No attempt at any original contribution is apparently made, and, indeed, this introductory chapter seems to go no further than to suggest the necessity of carefully studying the various manuals which deal intensively with the topics indicated.

Beginning with chapter two, however, we find a long list of problems covering the following topics: financial consideration involved in beginning a business; problems of raising fixed capital; problems of raising working capital; problems of internal financing, and financial aspects of producing and selling; the administration of earnings, and the handling of financial difficulties. Each of these topics is developed by a series of problems which are drawn from the financial experiences of a large number of business men and bankers, more than one hundred and twenty-five different kinds of businesses and industries being represented, and hundreds of separate concerns. Some of these cases are familiar to those who follow the financial news, as, for example, the method of extending the customer ownership of the United Drug Company; the methods of promoting employee ownership; the vicissitudes of the Good-year Rubber Company; Mr. Ford's recent experiences; the financing of the Export Copper Trade; and the dividend policy of the American Telephone and Telegraph Company. Most of the problems are, however, presented for the first time. A specimen of the author's method is shown in the following problem which deals with the

question: Shall Competitors with Surplus Funds?

The Z Cotton Manufacturing Company is itself heavily stocked with raw cotton at a time when sales began to slump. The management, feeling less optimistic than its competitors, began to protect itself against the probable drop in prices by selling its cotton for future delivery, when there seemed to be no market for the finished goods. Accordingly, within a few months, while the competing mills were without orders and had all their resources tied up in inventory bought at top prices, the Z Company had cleared out practically all of its inventory, had a large amount of cash on hand, and was ready to buy raw cotton at the bottom of the market. The president of the Z Company says that several questions having to do with the financial policy of the company are now being considered by his organization:

A. Shall the Z Company cut its prices on cotton cloth to a point where many of its competitors will be forced into bankruptcy?

B. Should the Z Company use some of the surplus funds which it now has to buy out its failing competitors?

C. Assuming that the Z Company is agreeable to purchasing some of the competing mills, provided it can get them cheap, the question is raised, "When is a cotton mill cheap?"

At the present time it would cost two or three times as much to reconstruct a mill as before the war.

(a) Would a mill, therefore, be worth buying if it could be taken over at the pre-war cost of reproduction, less depreciation?

(b) Even if this low figure could be secured, would it be a wise financial policy to buy out competitors?

QUESTIONS.

1. What advice would you give the president of the Z Company on the various questions raised by him?

2. If you do not advise the buying up of competitors, just what would you advise the Z Company to do with its surplus?

3. Do you think it advisable for a concern to follow a "fluctuating" dividend policy, or is it wiser to keep the common stock dividends fairly even from year to year? Does the nature of the business or the extent and character of its ownership affect your decision?

At the end of each of the problems the author presents certain suggestive questions as shown above. These are very general in nature and are calculated to stimulate discussion.

The volume concludes with a statistical

appendix which is arranged to parallel the chapters in the book in order to assist the student in the solution of the problems presented.

Professor Lincoln modestly confesses the existence of numerous shortcomings in the work and invites criticism. Criticism of a book which covers so extensive a field and develops so much new material, at an expense of time and energy which only those who have done similar work can appreciate, would be ungracious. A suggestion may, however, be ventured.

The problem method has been used in advanced classes in the Wharton School of Finance and Commerce of the University of Pennsylvania for many years. The aim in this work has been to give the student facility in devising methods of accomplishing certain results, rather than to encourage him to pass judgment on the expediency of the various devices employed, which seems to be the general plan on which Professor Lincoln's book has been constructed. For example:

"A public service corporation desires to borrow money to finance purchases of equipment. In the face of certain rigid mortgage restrictions, how can this be accomplished?" Or, "The Supreme Court

has ordered a corporation to be dissolved on the ground of violation of the Sherman Anti-Trust Law. How can this dissolution best be accomplished?"

Professor Lincoln's method is, rather, to present the facts, and the methods employed, and then to ask the student to express his opinion as to the strength or weakness of the methods employed, or the justification of the action taken, or the merits of an alternative plan.

The reviewer has had only a limited opportunity to utilize Professor Lincoln's problems. So far as his experience extends, and basing his opinion upon the interest shown by the students in these problems as contrasted with those formerly used, he is inclined to give the preference to those prepared by Professor Lincoln. At the same time, he does not believe that the problems which force the student to devise financial expedience can be disregarded, since, after all, advanced students in these subjects are more likely to be active agents than critics and commentators.

Probably a combination of the two types of problems will, in the long run, be found the most satisfactory.

E. S. MEADE.

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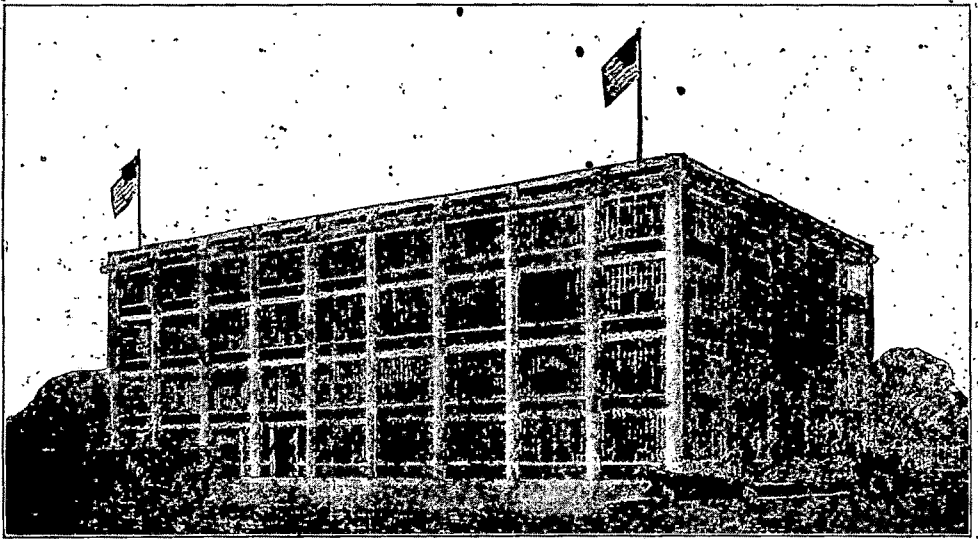
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